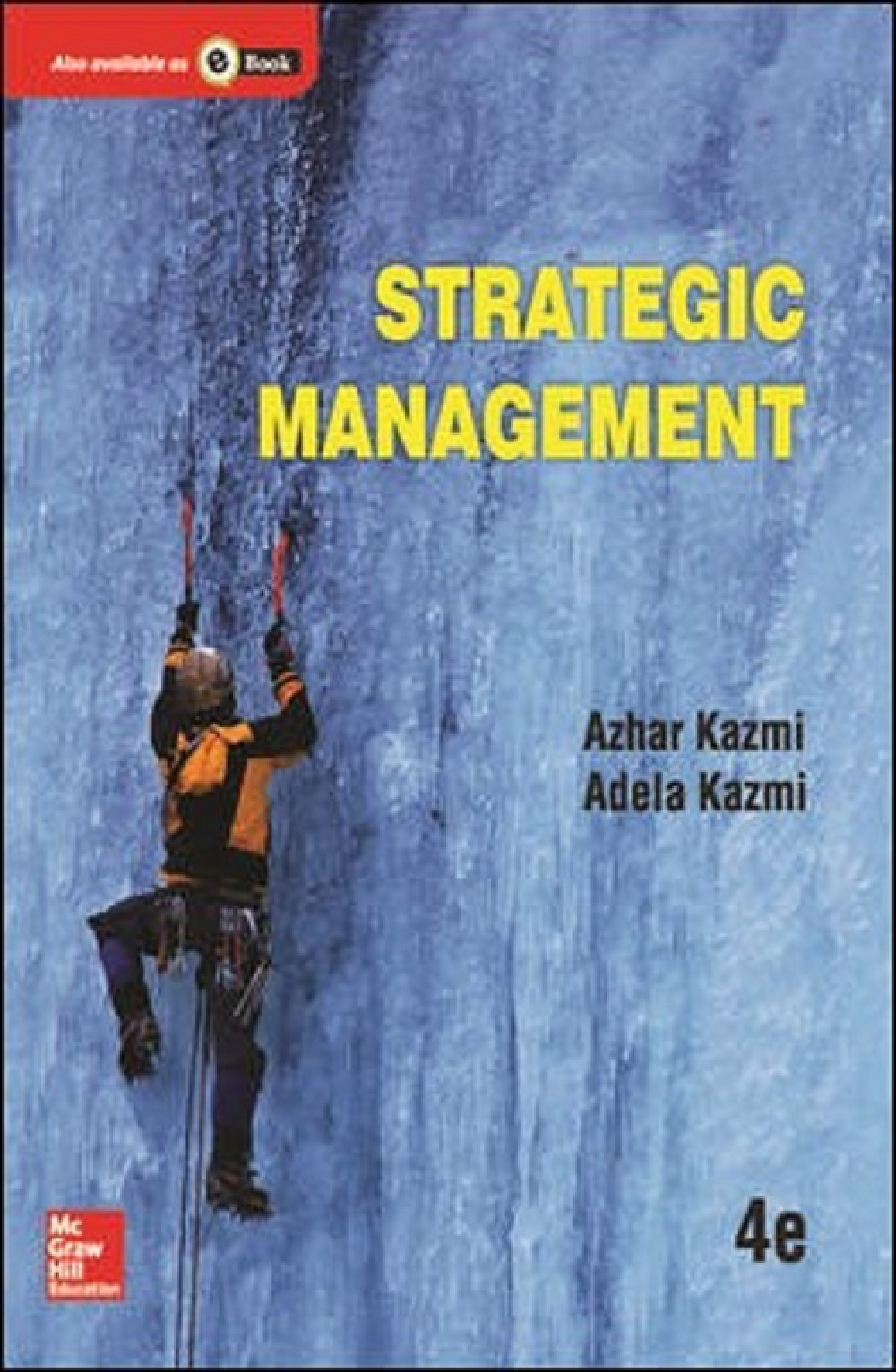


STRATEGIC MANAGEMENT

Azhar Kazmi
Adela Kazmi

4e

McGraw Hill Education

Strategic Management

Fourth Edition

About the Authors

Azhar Kazmi is a visiting professor at King Fahd University of Petroleum & Minerals at Dhahran, Saudi Arabia. A mechanical engineer from Birla Institute of Technology and Science (BITS) Pilani, he is an MBA from R. A. Podar Institute of Management, University of Rajasthan, Jaipur and obtained his Ph.D. in management from Kurukshetra University.

Professor Kazmi has been teaching MBA students for more than 35 years and has authored 60 research papers and articles in Indian and international publications. His work has appeared in *Journal of Entrepreneurship*, *Journal of Enterprising Culture*, *Malaysian Management Review*, *Paradigm*, *South Asian Journal of Management*, *International Journal of Management Concepts and Philosophy*, *Management Decision* and *European Journal of Business and Management* among other publications. He has attended many conferences and presented papers in several countries.

The first edition of this book titled *Business Policy* was awarded Second DMA-Escorts Best Management Book Award, 1994 and Ishan Award for Best Author of Management Book, 1996-1997. Professor Kazmi has written several case studies some of which appear in the present edition of this book.

A Salzburg Fellow from Austria, Professor Kazmi is a member of several professional bodies in India and abroad. He has served as Vice-Chairman of Strategic Management Forum of India. He was professor and head of the MBA programme at International Islamic University Malaysia. As founder-director of the School of Management and Information Studies at University of Ajmer, he played the lead role in establishing the MBA programme. At Aligarh Muslim University, where he served for several years as professor, he handled responsibilities as the Dean, Faculty of Commerce; Dean, Faculty of Management Studies and Research; and Chairman, Department of Business Administration.

Professor Kazmi serves on academic boards and committees of several business schools and university management departments, and on the editorial advisory boards of journals in India and abroad.He offers training programmes and consultancy for industrial organisations and government institutions.

Adela Kazmi serves as lecturer in management at Sophia Girls' College at Ajmer, India. She teaches management, marketing, human resource management and organisational behaviour to undergraduate management students. Dr. Kazmi obtained her Ph.D. in management studies from Banasthali University, Jaipur, India and an MBA in general management from International Islamic University Malaysia, Kuala Lumpur, Malaysia. Dr. Kazmi is a distinction holder in psychology in her B.A. examination. She is a gold medallist with distinction in English literature, economics and sociology at her Senior Secondary School Certificate Examination of Aligarh Muslim University, Aligarh, India.

Dr. Adela Kazmi has been teaching for nearly 6 years and has authored research papers and articles in Indian and international publications. Her work has been published in *International Journal of Business Management & Research, Global Journal of Research in Management, Journal of Entrepreneurship and Management, Journal of Contemporary Research and Management,* and *Management Insight.* She has attended seminars and conferences in India where she has presented papers on contemporary themes in management.

For this edition of *Strategic Management* she joins her father as co-author. Besides the textual matter, she has also contributed to writing the case studies and teaching notes for this book.

Strategic Management

Fourth Edition

Azhar Kazmi
Formerly Professor of Business Administration
Aligarh Muslim University
Aligarh

Adela Kazmi
Lecturer in Management
Sophia Girls' College, Ajmer

McGraw Hill Education (India) Private Limited
NEW DELHI

McGraw Hill Education Offices

New Delhi New York St Louis San Francisco Auckland Bogotá Caracas
Kuala Lumpur Lisbon London Madrid Mexico City Milan Montreal
San Juan Santiago Singapore Sydney Tokyo Toronto

McGraw Hill Education (India) Private Limited

Published by McGraw Hill Education (India) Private Limited
P-24, Green Park Extension, New Delhi 110 016

Strategic Management, 4e

Print Edition

ISBN (13 digit): 978-93-392-2183-6
ISBN (10 digit): 93-392-2183-4

Ebook Edition

ISBN (13 digit): 978-93-392-2196-6
ISBN (10 digit): 93-392-2196-6

Managing Director: *Kaushik Bellani*
Head—Higher Education & Professional Products: *Vibha Mahajan*
Publishing Manager: *Hemant K Jha*

Development Editor: *Laxmi Singh*

Manager—Production Systems: *Satinder S Baveja*
Manager—Editorial Services: *Hema Razdan*
Assistant Manager—Production: *Anjali Razdan*
Senior Graphic Designer—Cover: *Meenu Raghav*

Senior Publishing Manager (SEM & Tech. Ed.): *Shalini Jha*
Senior Product Specialist: *Navneet Kumar*

General Manager—Production: *Rajender P Ghansela*
Manager—Production: *Reji Kumar*

Typeset at Tej Composers, WZ 391, Madipur, New Delhi 110 063 and printed at

Visit us at: www.mheducation.co.in

With the highest reverence

To

the great Sufi saint

Hazrat Khwaja Moinuddin Chishty of Ajmer

who preached humility and human love
without distinction and reservation

and

declared it the only way to Allah, the Almighty

Brief Contents

PART 5 Applying Strategic Management

Contents

PART 4 Strategy Evaluation

PART 5 Applying Strategic Management

Preface to The Fourth Edition

The fourth edition of *Strategic Management* continues to serve our original mission of providing an up-to-date text in strategic management, rooted in the Indian context, for students, faculty and practitioners. The title of the book has undergone several transitions through its journey from the first to the fourth edition. The first edition of the book was titled *Business Policy*; the second was titled *Business Policy and Strategic Management*; while the third was titled *Strategic Management and Business Policy*. The changes in the title are meant to reflect the changing emphases in the subject of strategic management over time.

It is a tribute, not only to the continuing and growing relevance and vibrancy of the discipline of strategic management, but also to the quality and quantity of contemporary thinking and research in it, that *Strategic Management* had to be thoroughly revised. We have read and re-read each word, sentence, and paragraph to strive and create the latest, well-written strategic management text that is useful for the Indian student. The text material that was no longer relevant or less relevant has been removed and replaced by the current updates. The material in this revised text is an in-depth exploration of the vitals of strategic management. While remaining intellectually rich, the material is eminently practical to apply to real-life organisations.

The Approach

During the past decade and a half, India has emerged as one of the most vibrant economies of the world. This vibrancy is reflected within the organisations in terms of newer approaches to managing strategically. While we try to absorb what is best around the world, at the same time, we strive to create our own unique approaches. Internationalisation and the emergence of information technology have been the twin forces that have been shaping the contours of the environment outside and impacting the organisation within. Corporate sustainability is the need of the hour in view of demands made on resources. There is greater emphasis among organisations to be more socially responsive. At the same time, we are witnessing efforts to adopt cooperative strategies through establishment of inter-organisational relationships among organisations be they public or private. The role of non-governmental organisations is gaining more prominence and there is willingness to try out new models such as public-private partnerships. This revised edition attempts to capture the unfolding reality of strategic management in the Indian context.

But here a caution is in order; the tendency to overemphasise the state-of-the-art, the current, the latest or the "hottest" issues. This is often done at the expense of the older and established ideas that have stood the test of time. This edition, as in the earlier ones, exhibits no such prejudice against the old or for the new. Either way, it could be a disservice to the readers. A balanced approach guided the preparation of this fourth edition of *Strategic Management*.

As with the original edition, this book presents the fundamentals of strategic management in a comprehensive manner and relates its concepts and techniques to the Indian context. It is positioned to serve the needs of management students, researchers, and faculty members. It is also intended for the middle-level managers who are interested in supplementing their experience with knowledge that can help them prepare for discharging higher-level responsibilities, for the consultants who advise their clients on strategic issues, and for trainers who instruct managers in strategic management.

Structure of The Book

The structure of the textual matter is based on a comprehensive model of the strategic management process provided in Chapter 1. This model is based on the ideas that we have imbibed from the writings of several pioneers in the field of strategic management. The originality of this book manifests in the way the concepts, techniques, and applications of strategic management have been presented and in the manner these have been related to the Indian context.

This book features a balanced combination of theory and application. Divided into five parts, the first four parts are devoted to the text and the fifth is devoted entirely to the case method of learning strategic management. The text comprises 14 chapters covering comprehensively the current state-of-the-art in the discipline of strategic management. The fifth part has a note on the case method and eight comprehensive case studies.

Original Features Retained

This edition of *Strategic Management* continues to offer the time-tested features introduced since the first edition more than two decades ago.

- Each part begins with an introductory comment that clarifies the overall learning goals, and relates that part with the preceding part.
- Each chapter, similarly, starts with an introductory paragraph that states the learning objectives and the means adopted to achieve them.
- The reading matter in each chapter is divided into sections and sub-sections logically connected to each other. The reader is continually reminded of the preceding element in the strategic management process being discussed to relate easily to the matter. A certain amount of deliberate repetition is inevitable to enable reinforcement of overall learning objectives.
- An important aspect of the style adopted for this book is the use of exhibits. These present a vast gamut of information regarding special theoretical matter, examples of applying strategic management concepts and techniques, and illustrations drawn from the Indian business environment. Most of the exhibits and examples used in the earlier editions have been either replaced by newer, contemporary ones or updated and revised.
- The textual matter is also liberally interspersed with illustrations taken from the Indian context. Examples are also provided wherever a complex theoretical issue needs additional elaboration.
- A chapter-end summary recapitulates the major issues covered and can serve as a benchmark for evaluating learning or can be used to conduct a quick survey of the points covered.
- The reader can benefit from the two sets of questions provided at the end of each chapter. Short-answer questions are intended for a quick review of the concepts described in the chapter and these may be used for quizzes and tests for evaluation purposes. Discussion / application questions require more detailed answers and include conceptual as well as applications - oriented issues. These questions may be used for comprehensive, end-of-term examinations.
- References and notes at the end provide a list of further reading and comments on the matter wherever necessary.

Special Features Introduced

The special features of this book designed to support and enhance learning by the student and teaching by the faculty member, are briefly outlined below.

- Each chapter starts with learning objectives (LOs) stating clearly what the reader can expect to get from reading that chapter; each LO is duly tagged to the primary section of the chapter elaborating that idea.
- Each chapter starts with a preview case of a contemporary organisation that sets the stage for the topics to be discussed in that chapter by giving the reader a feel of what is to come.
- New theory has been incorporated at various places appropriately to reflect the state-of-the-art in strategic management. Special emphasis on including research in the Indian context has been heightened as research streams continue to grow and feed into strategic management of Indian organisations.
- A special effort has gone into including theory and examples related to strategic management of a wider variety of organisations that continues to incorporate private and public sector companies including government and non-government organisations.
- A particular emphasis has been placed on incorporating the ongoing phenomena of liberalisation, internationalisation, and digitalisation substantially in the form of relating them to various topics in strategic management.
- The matter on emerging issues such as sustainability, corporate governance, ethics, and social responsibility has been substantially enhanced to reflect their increasing importance to strategic management of organisations.
- Several hundred new examples have been introduced replacing the older ones to bring to the reader the flavour of the times.
- New diagrams and exhibits have been liberally interspersed with contemporary material.
- Each chapter has a review case that is intended for a short case discussion. This could also be used as a home assignment for students.
- Notes and references to each chapter contain sources that the reader could access for more information related to the issues discussed in the chapter. Researchers in strategic management could particularly find the notes to be useful.

A Peep into The Chapters

- Chapter 1 introduces the reader to the interesting and exciting course of strategic management. Beginning with a short description of the historical evolution of the discipline of strategic management, the chapter discusses the most significant concept of strategy, and a description of the strategic management process to set the stage for the rest of the book.
- Chapter 2 addresses the strategic intent consisting of a hierarchy of objectives that organisations set for themselves. While describing topics of vision, mission, business definition, it elaborates on business model, goals and objectives.
- Chapter 3 is a new chapter that deals with sustainability in the context of strategic management. It includes a brief description of corporate sustainability and discussion on stakeholders' management, corporate governance, corporate social responsibility, and personal values and business ethics.
- Chapters 4 and 5 deal with SWOT analysis and discuss environmental and organisational appraisals. The various sectors of the external environment in the Indian context are described as in the previous editions with new examples and illustrations. The techniques of the VRIO framework, balanced scorecard, and business intelligence system are discussed as means for performing internal analysis.
- Chapter 6 is devoted to discussion of various strategic alternatives at the corporate-level. This edition of *Strategic Management* continues to adopt the four-way classification of corporate strategies while paying special attention to diversification and internationalisation strategies.
- Chapter 7 on business-level strategies includes the cost leadership, differentiation and focus business strategies with new examples and illustration and goes ahead to discuss business strategies under different industry conditions as well as their relationship to internationalisation.

- Chapter 8 is a new chapter created to incorporate methods of pursuing strategies. It discusses leveraging as the means for pursuing corporate and business strategies in organisations. The methods of strategic alliances and joint ventures, mergers and acquisitions, strategic outsourcing, digitalisation, and integrating sustainability into strategy are the new features of this chapter.
- Chapter 9 on strategic analysis and choice continues the tradition set in earlier editions discussing the significant techniques used by organisations to analyse their strategic options. This chapter has been streamlined considerably to bring it into consonance with the current state of knowledge in strategic analysis.
- A significant addition was made in the third edition in Chapter 10 in the form of framework of strategy implementation in the Indian context. This edition builds up on the framework based on the three major themes of strategy implementation, viz., activating strategies, managing change, and achieving effectiveness. Discussions on project implementation, procedural implementation, and resource allocation have been streamlined to make them more relevant to the present Indian business environment.
- Chapter 11 on structural implementation is the second chapter on implementation and has been substantially rewritten and re-arranged to continue the tradition of earlier editions of discussing how organisations match their structures with strategies.
- Chapter 12 on behavioural implementation discusses issues that have been the strong points of earlier editions. This thoroughly streamlined chapter while rearranging the material discusses all the issues that were included earlier such as strategic leadership, corporate politics and power, corporate culture and corporate ethics and personal values. New additions to this chapter include a discussion of corporate political activity.
- Chapter 13 retains the earlier structure of discussing the functional and operational implementation while replacing most of the older examples and illustrations with newer ones. Stress is laid on discussing the contemporary issues and how they contribute to enhancing operational effectiveness.
- Chapter 14 on strategy evaluation and control has been thoroughly revised to include new material and illustrations though the structure of the chapter has been retained. New additions include the contemporary means of evaluating public sector enterprises and the public-private partnerships.

Case Method and Case Studies

This new edition has 36 case studies out of which 28 are the preview and review cases for each of the 14 chapters and eight comprehensive cases in Part V of the book. This part is devoted solely to the case method of learning strategic management. An explanatory note on the case method describes, in a simple way, how learners can use it to apply strategic management to practical situations. A section containing the synopses of the eight comprehensive case studies is included so that the users may conveniently exercise a choice from among the cases for the purpose of analysis and discussion.

The review and preview cases are either new or substantially revised and updated from the third edition. Among the eight cases, three are new cases, one is a new industry profile on cosmetics and toiletries industry in India and four are old cases that are thoroughly revised and updated.

The selection of the case studies for this book has been done carefully so as to provide a variety of case material. There are short and long cases; cases from different industries, cases based on manufacturing as well as service organisations, cases on government and non-governmental organisations, and cases that deal with a limited number of issues to cases which have a wider coverage. We have cast a wider net of contributors within and outside India and have been fortunate to attract contributions from a number of case writers. This helps us in providing a rich repertoire of case studies in this new edition.

Web Supplements to The Book

Additional learning and teaching resources such as PowerPoint presentations, case teaching notes, and other materials have been made available for the students and faculty at McGraw Hill Education online resource centreat *www.mhhe.com/kazmi4e*

Acknowledgement

First and foremost, our intellectual debt is to those academicians and practitioners who have contributed significantly to the emerging field of strategic management and whose work has been quoted copiously and used extensively by us in writing this book.

We are thankful to the following persons who have allowed us to reproduce their case studies in this book:

- Prof. Dr. Dirk Holtbrügge and Dr. Ritam Garg of Universität Erlangen-Nürnberg, Germany
- Ms. Noria Farooqui of Hamdard University, Delhi (and Ms. Mitali Sarkar of *Vikalpa* at Indian Institute of Management, Ahmedabad for facilitating reprint of Ms. Farooqui's case study)
- Dr. Ch. Ibohal Meitei of Manipur University, Imphal, India
- Mr. Gopalakrishnan Narayanamurthy of Indian Institute of Management, Kozhikode, India and Dr. Roger Moser of University of St. Gallen, Switzerland:
- Ms. Nabila Kazmi of Azim Premji University, Bangalore, India

We are especially grateful to the institutions where we work: King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia and Sophia Girls' College, Ajmer, India for providing us the necessary ambience and enabling us to undertake the onerous task of revising our book. To our students and research scholars, we owe a deep sense of obligation. Without their inquisitive and helpful class participation, we could not possibly have developed and sustained an abiding interest in learning strategic management. We are grateful to the anonymous reviewers of book who provided very useful comments all of which proved to be of immense help in the revision work.

Azhar is beholden to his mother and late father and other family members for their blessings. Zeba, his wife, and children Adela, Nabila, and Wasif deserve special thanks for their support. He is appreciative of his daughter Adela who joins him as co-author from this edition and hopes she would infuse more dynamism and energy into our academic endeavour and carry it forward.

Adela would like to thank her father Azhar Kazmi for his encouragement to join him in revising this book. In the long and painstaking process of revision, she learned so many things from him. Her mother, Zeba Kazmi is a source of strength for her and for others in the close-knit family. Her husband, Saif is a friend on whom she can always rely for support. Her siblings, Nabila and Wasif are a source of encouragement. She is indebted to all of them.

Both of us are indebted to the publishers McGraw-Hill Education India and their staff for the efforts they have put in for giving this book its present shape. In particular Ms. Vibha Mahajan, Mr. Hemant K Jha, Ms. Laxmi Singh, Mr. Satinder Singh, Ms. Hema Razdan and Ms. Anjali Razdan who have worked hard to make this revised edition a reality and have provided the crucial support in the production of this book.

We accept the sole responsibility for any possible errors of omission and commission and would be extremely grateful to the readers in case they come across any such mistakes to our notice. We would further welcome any suggestion for making the next edition of this book more useful to the readers. Our e-mail addresses are: *azhar_kazmi@yahoo.com* and *adelkazmi@rediffmail.com.*

Azhar Kazmi

Adela Kazmi

Preface to The First Edition

Several years of instructing MBA students in Business Policy has led me to conclude that there presently exists a wide gap of information in this area. Though there are some excellent textbooks available in business policy and strategic management, almost all of them have been written in a different – mainly the US – context. A few Indian authors have made commendable efforts to bridge the gap but, owing to the lack of a serious attempt to interweave the theory of strategic management with special requirements of the Indian business environment, these efforts have not proved to be adequately meaningful.

Both as teacher and as a learner of Business Policy, I have always felt a definite need for a book that could present the fundamentals of strategic management in a comprehensive fashion and relate its concepts and techniques to the Indian context. I hope this book serves as an answer to that need. It can serve a useful purpose and satisfy the learning needs of the growing numbers of management students and researchers. This book is also intended for the middle-level executives who are interested in supplementing their experience with knowledge that can help them to prepare themselves for discharging responsibilities at the higher level of management.

The structure of the textual matter of this book is based on a comprehensive model of the strategic management process provided in Chapter 3. This model has been designed on the basis of ideas that I have imbibed from the writings of several pioneers in the field of strategic management. The originality of this book lies in the way the concepts, techniques, applications of strategic management have been presented and in the manner these have been related to the Indian context.

This book features a balanced combination of theory and application. It is divided into five parts, one of which is devoted entirely to the case method of learning strategic management. The other four parts systematically cover the different aspects of the strategic management process.

Special Features

The special features of this book are briefly outlined below.

- Each part begins with an introductory comment that clarifies the overall educational goals, and relates that part with the preceding part.
- Each chapter, similarly, starts with an introductory paragraph, that states the learning objectives and the means adopted to achieve them.
- The reading matter in each chapter is divided into sections and sub-sections logically connected to each other. The reader is continually reminded of the particular element in the strategic management process being discussed so that relating to the matter becomes easier. There is a certain amount of deliberate repetition to enable reinforcement of learning to take place.
- An important aspect of the style adopted for this book is the use of exhibits. There present a vast gamut of information regarding special theoretical matter, examples of applying strategic management concepts and techniques, and illustrations drawn from the Indian business environment.

- The textual matter is also liberally interspersed with illustrations taken from the Indian context. Examples are also provided wherever a complex theoretical issue needs additional elaboration.
- Business policy and strategic management is an emerging discipline and there is some confusion in regarding the terminology used in it. Chapter 2, dealing with the conceptual foundations in Business Policy, attempts to clarify the different terms so that the reader becomes clear about the meaning assigned to them.
- Chapter 7 on strategic alternatives specifically describes those strategies that are more commonly used by Indian companies.
- Chapter 9 includes a description of procedural implementation, which, in my opinion, is an essential feature of the regulatory nature of the Indian business environment.
- Chapter 12 on behavioural implementation deals with the issues such as the corporate culture, corporate politics and power, personal values and business ethics, and social responsibility. These issues are increasingly becoming important as the application of the behavioural concepts to strategic management gains wider acceptance.
- The reader can benefit from the two sets of questions provided at the end of each chapter. Short-answer questions are intended for a quick review of the concepts described in the chapter and these questions may be used for quizzes and tests for evaluation purposes. Discussion questions require more detailed answers and include conceptual as well as application-oriented issues. These questions may be used for comprehensive, end-of-term examinations.
- Part V of this book is devoted solely to the case method of learning strategic management. An explanatory note on the case method describes, in a simple way, how learners can use it to apply strategic management to practical situations. A section containing the synopses of the case studies is included so that the users may conveniently exercise a choice from among the cases for the purpose of analysis and discussion. The selection of the case studies for this book has been done carefully so as to provide a variety of case material. There are short and long cases; cases from different industries; cases based on manufacturing as well as service organisations; and cases that deal with a limited number of issues to cases which a wider coverage. I have included a profile of the tyre industry in India, which can be used for industry and competitor analyses. I have also suggested some questions based on the case studies and deliberately placed them separately so that users who prefer to analyse cases on the basis of a limited number of issues may use them.

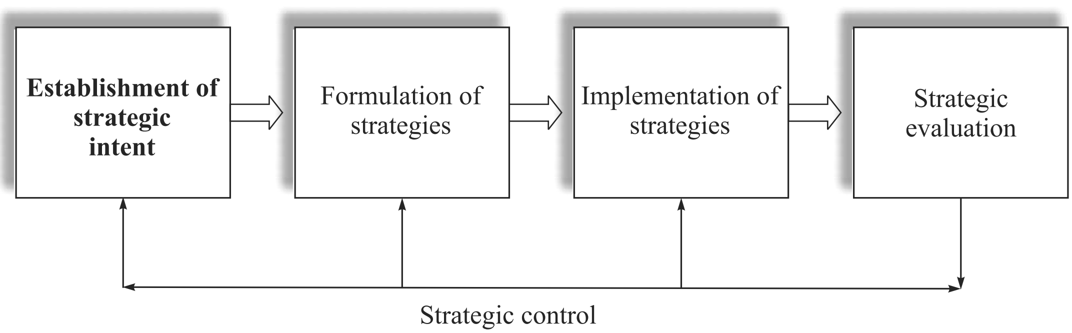
Finally, a note of caution: Management, especially strategic management, is a dynamic field. Several of the examples quoted in the text may contain matter which has become outdates as there is a gap between the time I wrote the book and the reader gets to read it. Individuals mentioned in the illustrations might no longer be occupying the same positions. Government policies too keep changing.

Azhar Kazmi

List of Exhibits

PART 1 Foundations of Strategic Management

The first part of this book delves into the basic issues involved in strategic management. The part has three chapters. The first chapter is introductory and tells us about strategic management. While doing so, we would look at the history and evolution of the subject both globally and in the Indian context. Moreover, we would get an opportunity to learn about the most important concept of strategy and the process of strategic decision-making. An interesting account of the various schools of thought in strategy formation will help us understand different perspectives that scholars have adopted in understanding how strategy evolves. The first chapter, in its concluding section, explains the model of strategic management that we adopt in this book. The second chapter which is on the hierarchy of strategic intent deals with vision, mission, business definition, business model, goals, and objectives. These are the foundations on which we will learn to formulate strategies. The third chapter on strategic management for sustainability will brief us on corporate sustainability and what is sustainable strategic management. We will also learn about significant contemporary issues such as stakeholders' management, corporate governance, corporate social responsibility, and personal values and business ethics which are of great relevance to strategic management.



1

CHAPTER

Introduction to Strategic Management

Learning Objectives

After reading this chapter you should be able to:

LO 1 Know about the historical development of strategic management in India and around the world
LO 2 Appraise the concept of strategy and its limitations
LO 3 Show how the process of strategic decision-making works
LO 4 Describe various schools of thought on strategy formation
LO 5 Explain strategic management and its processes

Chapter Outline

Preview Case

THE EVOLUTION OF STRATEGY AT BHARTI AIRTEL*

The Indian telecom market, which has been one of the fastest growing markets for mobile telecommunication services, began to slow down after 2010. The Indian telecom industry is in a consolidation phase with market consolidation, asset sharing, and network sharing taking place. Segments, such as voice market, are nearing saturation while others such as data services are still in a growth phase. The regulatory environment for the telecom industry has been irksome for companies but in recent years several welcome changes have made life a bit easier. Tighter statutory norms on customer information have reduced the number of subscribers.

The mobile telecom industry in India is highly competitive with one of the lowest average revenue per user in the world; thus making it a strategic challenge for the best of companies to operate successfully. Among the market leaders is Bharti Airtel which was set up in 1995. It claims to have nearly 307 million subscribers as of November 2014, which made it the largest mobile services provider in India and among the top four mobile operators in the world.

Sunil Bharti Mittal, the chairman of the Bharti group of industries, is a first-generation entrepreneur from the state of Punjab who has demonstrated his ability to think big and put ambitious plans into action. Bharti Airtel's strategic intent is "to create a globally admired telecommunication company". The stated vision of Bharti Airtel is "to be the most loved brand in India by 2015".

The businesses at Bharti Airtel have been structured into four strategic business units (SBUs): mobile services, Airtel business, telemedia services, and digital TV services. It operates internationally in Africa and South Asia. The company has a managing director and a chief executive officer leading the executive management comprising the directors of the four SBUs and other functional heads. The group corporate office of Bharti Airtel focuses on overall business strategy, provides support to the Airtel management board, and conducts periodic reviews and governance.

The corporate strategy at Bharti Airtel has seen changes over a period of time. In mid-2000, the company focused on strategic alliances with global companies for rapid growth in Sunrise Industries through access to finance and established market brands. For instance, Bharti Airtel had a strategic alliance with Singtel and Vodafone as investors. Ericsson and Nokia were mobile network equipment partners. Other equipment suppliers included Siemens, Nortel, and Corning. With IBM, there is an information technology alliance group-wide information technology requirements and with Nortel for call centre technology requirements. In late 2006, Bharti Airtel announced its foray into retailing in alliance with Wal-Mart for backend logistics support involving sourcing with Bharti planning to handle the front-end retail by setting-up stores across India. The joint venture broke up in 2013, after six years. In 2010, it created the international business group to oversee its expansion beyond South Asia.

Reeling under debt, owing to investments into its international operations, Bharti Airtel is under tremendous pressure. Its international operations particularly in Africa have not borne fruit. Acquisition of Zain to operate in Africa at US$10 billion does not seem to have worked out. Only during the four quarters of 2014 did the profitability started recovering gradually.

The company is bleeding, both in its domestic and international operations, and in most of its business areas. "There's a deep sense of tension and frustration inside the company", says a senior executive of a consultancy firm, who works closely with Bharti. Bharti's first phase of growth is over and the second phase of the story would be tougher than ever. Some industry experts are of the opinion that Bharti Airtel has not learned to change its strategies and has been unsuccessful in implementing its earlier voice-centred approach to data-centric services.[1]

Companies like Bharti Airtel, exemplified in the preview case, demonstrate the actions of the top management in a highly competitive and dynamic telecom industry in India as well as globally. Seen initially as a pioneer in the newly emerging industry in India having tremendous potential, it has gradually seen reverses in its fortunes. It has adopted expansion strategies domestically, as expected in a growing market for telecom services. It then ventured abroad to reap advantages of its experience of operating in a dynamic developing economy such as India. Along the way, it has made strategic alliances, undertaken mergers and acquisitions, looked for related diversification into allied fields of business, and tried to adapt its internal structures and systems to the needs of its strategies. Operating in a dynamic environment, Bharti Airtel has seen the best and worst in its short history of about two decades. The study of the strategies of companies and how they are formulated, implemented, and evaluated is the subject matter of strategic management.

'Strategic management' is the prevalent term. An older term 'business policy' is sometimes used to denote the nomenclature of the course that is based on the framework of strategic management. Increasingly though, the discipline is termed widely as strategic management. We use the two terms interchangeably in the book.

1.1 EVOLUTION OF STRATEGIC MANAGEMENT **LO 1**

It is useful, as well as interesting, to start learning any subject with some idea of its historical evolution. In this brief section we will discuss the genesis of strategic management, look at how the discipline has undergone a process of historical evolution, and what lies in store in future. Finally, we will see some emerging developments in the Indian context in the field of strategic management.

The Genesis of Strategic Management

The origin of strategic management can be retraced to 1911, when Harvard Business School introduced an integrative course in management called 'business policy' aimed at the creation of general management capability. This course was based on case studies which had been in use at the school for instructional purposes since 1908.[2]

However, the real impetus for introducing business policy (as strategic management was called then) in the curriculum of business schools (as management institutes, colleges, faculties or departments are known in USA) came with the publication of two reports in 1959. The Gordon and Howell Report, sponsored by the Ford Foundation, recommended a capstone course of business policy " ... which will give students an opportunity to pull together what they have learned in the separate business fields and utilise this knowledge in the analysis of complex business problems."[3] The Pierson Report, sponsored by the Carnegie Foundation and published simultaneously, made a similar recommendation.

In 1969, the American Assembly of Collegiate Schools of Business, a regulatory body for business schools, made the course of business policy a mandatory requirement for the purpose of recognition. In 1977, a Research Symposium at the University of Pittsburgh helped to move from business policy through strategic planning to strategic management.[4] During the past half a century, strategic management has become an integral part of management curriculum. From USA, the practice of including strategic management in the management curriculum spread to other parts of the world. The contents of the course or the teaching methodology vary from institution to institution but, basically, strategic management is considered as a capstone, integrative course offered to students who have previously been through a set of core functional area courses. The term 'business policy' had been traditionally used though titles such as Strategic Management, Corporate Strategy, Corporate Strategy and Policy, Competitive Strategy, etc., are now used extensively for the course. The discussion so far related to the academic status of strategic management course. In practice, however, the development has been on different lines.

Evolution Based on Managerial Practices

Glueck views the development in business policy as arising from the use of planning techniques by managers.[5] Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasise the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management—a term that is currently used to describe the process of strategic decision-making. Strategic management is the theoretical framework for business policy courses today.

Another perspective, based on managerial practices, is offered by Oliver who views strategy as emerging out of the differing emphasis on managerial practices through the prism of historical ebbs and flows.[6] Oliver states that through most of human history, nearly all businesses were family-owned and operated in a local area on the management principles of command and control. The mid-1880s through early 1900 saw the emergence of big business of railroads in USA necessitating the adoption of the 'POLC chain' of management functions of planning, organising, leading, and controlling. World War II heightened the need for planning in contrast with the earlier emphasis on controlling and creating ambient conditions for strategic planning to flourish in the 1960s. The following decade of the 1970s was unsettling due to macroeconomic upheaval like the oil crisis creating the need for a more flexible approach to strategy. The 1980s and the 1990s saw the emergence of globalisation and structural market changes leading strategy to focus on quality, technology, and competition. Thus, Oliver lays emphasis on the ebbs and flows of ideas, tools, and practices in strategy as a guide to future development.

Historical Perspective of Evolution of Strategic Management

Hofer and others view the evolution of strategic management policy in terms of four paradigm shifts.[7] For the sake of convenience; these shifts may be considered as four overlapping phases in the development of the subject of strategic management.

It is interesting to note that the development of strategic management, as a field of study, closely followed the demands of real-life business. According to Hofer and others, the first phase, which can be traced back to the mid-1930s, rested on the paradigm of *ad hoc* policymaking. The need for policymaking arose due to the nature of American business firms in that period. The firms, which commenced operations in a single product line catering to a unique set of customers in a limited geographical area, expanded in one or all of these three dimensions. The informal control and coordination became partially irrelevant as expansion took place and a need arose to integrate the functional areas. This integration was brought about by framing policies to guide managerial action. Policymaking became the prime responsibility of erstwhile entrepreneurs who later assumed the role of senior management.

Due to the increasing environmental changes in the 1930s and the 1940s in the US, planned policy formulation replaced *ad hoc* policymaking. Based on this second paradigm, the emphasis shifted to the integration of functional areas in a rapidly changing environment.

Increasing complexity and accelerating changes in the environment made the planned policy paradigm irrelevant since the need of business could no longer be served by policymaking and functional area integration only. By the 1960s, there was a demand for a critical look at the basic concept of business and its relationship to the environment. The concept of strategy satisfied this requirement and the third phase, based on strategy paradigm, emerged in the early 1960s.

The current thinking—that emerged in the 1980s—is based on the fourth paradigm of strategic management. The initial focus of strategic management was on the intersection of two broad fields of enquiry: the strategic processes of business firms and the responsibilities of general management.

The story is far from being complete and, as Thompson and Strickland say, the approaches and methods of analysis of strategic management "have not yet coalesced into a 'theory' of how to manage an enterprise", but, "they very definitely do represent a powerful way of thinking to resolve strategic issues."[8]

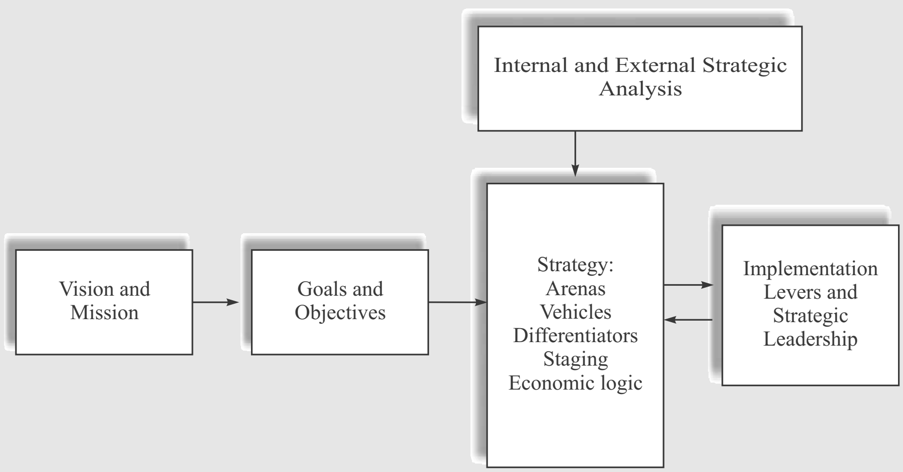
Pointers to the Future

The resolution of strategic issues that affect the future of a business firm has been the continual endeavour in the subject of strategic management. The endeavour is based on development of strategic thinking. It is felt that "really useful training (in strategic management should yield)... a comprehension of a few general principles with a thorough grounding in the way they apply to a variety of concrete details".[9] Most likely, the students will forget the details and principles but "remember (usually unconsciously) new, non-obvious ways of thinking strategically".[10] The general principles undergirding strategic thinking have been the focus of the efforts of researchers and academicians in the field of strategic management. What, then, are these general principles? As a first step, the model of strategic management that has been developed and is under constant review incorporates these general principles. We will be using a well-established model of strategic management in this book which is described in the last section of this chapter. The model that we will use, or similar models, is not the only framework available. There are continual efforts to build on existing knowledge and experiences and refine the model of strategic management. Exhibit 1.1 presents information related to an alternative model of strategic management that may well be a pointer to the future developments in strategic management theory.

Exhibit 1.1 An Alternative Model of Strategic Management

In their 2001-paper titled "Are you sure you have a strategy?" in the *Academy of Management Executive*, D.C. Hambrick and J.W. Fredrickson talk at length about the misconceptions surrounding the use of the term and assert that most organisations do not actually have a strategy. They go on to define strategy as "An integrated, overarching concept of how the business will achieve its objectives."

Hambrick and Fredrickson propose that strategy outlines the means by which a firm intends to create unique value for customers and important stakeholders. In doing so, strategy is the central, integrated, externally-oriented concept of how a firm will achieve its objectives. In such a manner, strategy consists of an integrated set of choices. These choices are the five related elements of the strategy based on decision that managers make regarding them. The five elements are arranged in a manner to make it what is referred to as the strategy diamond.



A diagrammatic representation of Hambrick and Fredrickson model of strategic management

The five elements that make up the strategy, according to Hambrick and Fredrickson, and those that form the core of their model of strategic management, in the form of questions are:

1. *Arenas*: The arenas attempt to answer the question: where will we be active? Typically, the arenas would comprise of the products, services, distribution channels, geographic markets, and technology in which the firm participates.
2. *Vehicles*: The vehicles attempt to answer the question: how will we get there? The vehicles thus are the means for entering new arenas such as through acquisitions, alliances, or internal development.
3. *Differentiators*: The differentiators attempt to answer the question: how will we win in the marketplace? The differentiators are the features and attributes of a firm's products or services that help it compete in the market. Some examples of differentiators could be price, quality or reliability of products.
4. *Staging*: The staging attempt to answer the question: what will be our speed and sequence of moves? Thus, the staging refers to the timing and the pace of strategic moves. There are resources as well as limitations that determine when a firm moves into a market and at what speed.
5. *Economic logic*: The economic logic attempts to answer the question: how will we obtain our returns? Every firm has to earn a profit over and above its cost of capital. Explaining how profit will be created is the economic logic of the firm.

A comprehensive strategic plan should be dealing with all these five elements of strategy and when the five elements of strategy are aligned and reinforce each other, success is more likely.

The strategic management model proposed by Hambrick and Fredrickson has a lot of merit. It is being used in some recent textbooks on strategic management among them being *Strategic Management* by Carpenter and Sanders.

Sources: D.C. Hambrick and J.W. Fredrickson, "Are you sure you have a strategy?" *Academy of Management Executive* 15, no. 4 (2001): 48-59.; M. A. Carpenter and Wm. G. Sanders, *Strategic Management: A Dynamic Perspective* (Upper Saddle River, N.J.: Pearson Prentice-Hall, 2007).

The five elements that make up the strategy, according to Hambrick and Fredrickson, and those that form the core of their model of strategic management, in the form of questions are:

1. *Arenas*: The arenas attempt to answer the question: Where will we be active? Typically, the arenas would comprise the products, services, distribution channels, geographic markets, and technology in which the firm participates.
2. *Vehicles*: The vehicles attempt to answer the question: How will we get there? The vehicles thus are the means for entering new arenas such as through acquisitions, alliances, or internal development.
3. *Differentiators*: The differentiators attempt to answer the question: How will we win in the marketplace? The differentiators are the features and attributes of a firm's products or services that help it compete in the market. Some examples of differentiators could be price, quality, or reliability of products.
4. *Staging*: The staging attempts to answer the question: What will be our speed and sequence of moves? Thus, the staging refers to the timing and the pace of strategic moves. There are resources as well as limitations that determine when a firm moves into a market and at what speed.
5. *Economic logic*: The economic logic attempts to answer the question: How will we obtain our returns? Every firm has to earn a profit over and above its cost of capital. Explaining how profit will be created is the economic logic of the firm.

A comprehensive strategic plan should be dealing with all these five elements of strategy. When the five elements of strategy are aligned and reinforce each other, success is more likely.

The strategic management model proposed by Hambrick and Fredrickson has a lot of merit. It is being used in some recent textbooks on strategic management among them being *Strategic Management* by Carpenter and Sanders.

The direction in which strategic management is moving can be anticipated from what Ansoff called an emerging comprehensive approach of "management of discontinuous change, which takes account of psychological, sociological, political, and systemic characteristics of complex organisations."[11]

With the emergence of futuristic organisations, which, in the words of Toffler, are "no longer responsible simply for making a profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, political, racial, sexual, and social problems,"[12] the demands on strategic management have grown tremendously. The general managers of today are called upon to shoulder a set of entirely new responsibilities necessitating a drastic review of the emerging concepts and techniques in strategic management.

Responding to the need for evolving new approaches to teaching of strategic management, the American Assembly of Collegiate Schools of Business no longer insists on just one course in the area. There is now an emerging trend to have several courses such as the theory of strategy, competitive strategy, industry dynamics, hypercompetition, and global strategy.[13] Thus, strategic management has moved from being just an elective course to a capstone course and then to an area of focus ultimately leading to a broad field of study.

Reviewing the development of strategy and theory, Rumelt *et al,* posed four fundamental questions which, in their view, characterise the major concerns of the field of strategic management. These four fundamental questions are:[14]

1. How do firms behave? Or, do firms really behave like rational actors, and, if not, what models of their behaviour should be used by researchers and policymakers?
2. Why are firms different? Or, what sustains the heterogeneity in resources and performance among close competitors despite competition and imitative attempts?
3. What is the function of or value added by the headquarters unit in a diversified firm? Or, what limits the scope of the firm?
4. What determines success or failure in international competition? Or, what are the origins of success and what are their particular manifestations in international settings or global competition?

Reviewing the state of strategic management research and pointing to the future, Hitt and others comment that, "the field of strategic management has advanced substantially in both theory and empirical research over the last 25 years" but cracks have begun to appear in the methodology where challenges have to be dealt with in the areas of research questions, data collection, construct measurement, analysis of endogenous relationships, and applications.[15]

The 'state of the art' shows that the field of strategic management is "replete with competing prescriptions and directives with regard to successful performance" requiring synthesis for the purpose of "drawing firm boundaries, developing dynamic capabilities, and finding viable strategy configurations"[16]

Grant, in his review article on the advances and challenges in strategic management, notes the contributions in the area of industrial dynamics, managerial decision-making, marketplace globalisation, management of technology, stakeholder expectations, and organisational structure.[17]

This book will deal with several of the issues raised by the fundamental questions and future pointers indicated in this section.

Let us pause here to look at what has been happening on the Indian scene.

The Indian Scenario

Formal management education started in India in the late 1950s and gained an impetus with the setting up of the Indian Institutes of Management (IIMs) and the Administrative Staff College of India in the early 1960s. In the formative years of the IIMs, the curriculum and philosophy of management education"... were borrowed substantially from the American business schools".[18] The IIM, Ahmedabad, based its teaching methodology on the Harvard model of developing and used case studies as the major pedagogical tool. With the spread of the network of IIMs and the creation of several university departments and private management institutes, management education has experienced an unparalleled growth.

Almost all management education institutions offer the strategic management course usually in the later part of the degree or diploma programme. The All India Council of Technical Education (AICTE), the regulatory agency for management education in India, prescribed strategic management, first in 1990[19] and again in 1995[20], as an integrative component in management studies curriculum in the form of a course in corporate planning and strategic management. For the postgraduate diploma programme in management, the AICTE proposed a model curriculum in 2012, suggesting a compulsory course in strategic management as well as an elective area of strategy incorporating courses such as business valuation, competitive strategy, and mergers and acquisition.[21] The Association of Indian Management Schools (AIMS), a representative body of management institutes and university management departments, while recommending a standard curriculum included strategic management as a compulsory course.[22] The All India Management Association (AIMA), New Delhi, which is a national body for the promotion of scientific management in India, offers a popular distance education programme in management that includes a course on strategic management and ethics in its curriculum.

The course contents in strategic management courses draw heavily from foreign, mostly American, literature. The development and revision of course contents usually follow those taking place in the subject of strategic management in the US albeit with a time lag which also varies among institutions. The fact that management institutions in India lean heavily on American literature in strategic management[23] (and in some other disciplines too) is understandable from two viewpoints. First, the origin of formal management education is traced directly to the American practice and models. Since borrowing concepts and techniques was inevitable in the absence of indigenous theory, the dependence of Indian management education on American sources has been firmly established. This is a controversial and debatable point and often opinions are expressed by academicians and practitioners in India against this tendency. But till such time that the elusive 'Indian system of management' can be developed, based on indigenous research, the dependence on American sources may have to be accepted. At the same time, the efforts underway to include Indian resources in research, scholarship, and practice need to be accepted and encouraged. This book makes a sincere effort to bring to the readers information on strategic management in the Indian context by the means of referring to research studies and illustrations of Indian organisations. The second cause could be ascribed to the lack of research efforts in management education, in general, and specifically in the area of strategic management. This is as true for the Indian context as it is for the developed countries like the US. The research in strategic management has attracted considerable attention yet the "state of the art is disappointing".[24]

Murthy, based on a survey of research in business policy in India (1970–82) concluded that "research in India (in business policy) has yet to come to grips with the job of the general manager". Further, he points out the causes for the lack of research efforts which include non-cooperation from the top management in Indian industry, paucity of researchers, and the requirements of multi-disciplinary skills and considerable business knowledge to conduct research in business policy.[25]

A survey of research in management in India during the decade 1983–93 reveals that only 13 doctoral dissertations, out of a total of 339, have been prepared on strategic management.[26] It has been quite some time that a follow-up survey of research in strategic management in India was conducted yet the situation may not be much different at present.

An encouraging development is seen in terms of increasing India-focused international research studies. This has to be viewed in conjunction with a heightening interest of foreign investors and producers in the Indian corporate sector in recent times. India as an important member of the emerging economies[27] and of Asian economies[28] is seen as significant as an investment destination and a large market for goods and services. This gives rise to an increasing interest of international scholars in India and of Indian scholars finding avenues for reporting research results abroad.

On the whole, there are a number of desirable changes taking place in the Indian context: the availability of literature in strategic management is increasing, research studies are occasionally reported in publications, and organisations seem to be willing to put strategic management concepts and techniques into practice. There is now an actively functioning, professional association— Strategic Management Forum of India (SMFI)—[29] exclusively devoted to the development and propagation of the theory and practice of strategic management in India. Strategic Management Society (SMS) has the SMS India Research Initiative.[30]

Another welcome development is that of publications. The popular press, including business magazines and newspapers, are playing a seminal role in popularising the concepts and techniques in the discipline of strategic management in India. Almost all business magazines and newspapers, several of which have proliferated in recent times, devote space to strategy developments and reporting about strategic management in Indian organisations. Some examples of such publications are the weekly supplement "Strategist" of the *Business Standard* newspaper and the general management and strategy reports in *domain-B.com*, the online business magazine. Prestigious international periodicals like the *Economist*, *Business Week*, etc., are also devoting more space to developments in the Indian corporate sector.

This book brings together many sources from literature and practice in the Indian context related to strategic management. A number of these sources will be referred to in the subsequent chapters.

Exhibit 1.2 provides a glimpse of the state of strategic management in the Indian context over three periods and provides pointers to the future of strategic management in Indian companies.

Exhibit 1.2 An agenda for Strategic Management in Indian Companies

A consultant – academic duo has attempted to analyse the strategic issues in front of Indian companies over three periods: the pre-liberalisation stage, i.e. till the 1980s, the liberalisation stage 1990s, and the post-liberalisation stage, i.e. 2000 and beyond.

The key patterns in strategic management as practised by the Indian companies in the three periods are as below:

Pre-liberalisation stage: Strategic management on government's fringes

- Subsuming enterprise objectives into the national planning framework
- Capabilities in generating and grabbing opportunities
- High diversification, non-competitive scales and weak technology capabilities
- Secretive and 'one man' strategic management process

The decade of the 1990s: Transitional euphoria and reality-check

- Carried 'operation de-linked strategy' mindset to the early 1990s
- 'Foreign complex' governed strategy in older groups in the early 1990s
- Strategy of focus through rationalisation and operations improvement by majority of companies in the late 1990s
- Strategy of growth through acquisitions, internationalisation, and product-market expansion, by some companies in the late 1990s
- Experimentation with international consulting firms in strategic management process

Post-liberalisation stage: Issues and agenda in 2000 and beyond

- Acquire a 'global maverick' mindset and actively shed pre-liberalisation thinking
- Synergise entrepreneurial flair with professional skills in strategic management
- Complete portfolio rationalisation, but also expand boundaries through internationalisation and entry into emerging sectors
- Mobilise increased resources and ensure adequate growth through existing businesses
- De-merge businesses as independent companies, for focus and improved market capitalisation
- Actively promote development of technology capabilities
- Decentralise organisations and develop institutionalised control mechanisms

Source: Adapted from R Karki and R. T. Krishnan, "Strategic management in Indian companies: Evolution and an agenda for 2000–2010," (Proceedings of the Second Annual Conference of the Strategic Management Forum of India, Indian Institute of Management, Bangalore, May 1999).

Ultimately the value of an educational course depends on its application in the organisations. Here, what one finds is a heightened awareness of strategic management. Indian companies are now acutely aware of the need for strategic management. The evidence lies in the fact that several large companies have departments devoted to strategic planning. Companies also engage consultants, many of them of foreign origin, to advise them on strategic matters. Besides, there are numerous reports in the business press of the strategic actions that Indian companies are taking. The processes of liberalisation, globalisation, and privatisation are contributing in a large measure to the increasing applications of strategic management in Indian organisations.

Before we move to the next section and try to understand strategy let us clarify the meaning of the term 'strategic' as it is often misunderstood, misinterpreted, and misused. The literature and texts in strategic management assign a definite meaning to the term 'strategic'. You might have noted that managers in industry, business magazines, and newspapers frequently use terms such as marketing strategy, advertising strategy, or purchasing strategy. Several terms are prefixed with the term 'strategic' for instance strategic procurement or strategic recruitment. Sometimes processes are called 'strategic' as in 'strategic thinking'. You should be cautious since the terms 'strategy' and 'strategic' are often used without much discretion. In strategic management there is a definite meaning conveyed by these terms but in practice the usage tends to trivialise the real meaning. Some people may do it unknowingly or even to impress others by calling something 'strategic' when it actually is not. Just by prefixing 'strategic' before marketing management or operations management does not really make them strategic marketing management or strategic operations management. So, when you wish to prefix 'strategic' before, say, marketing management then be sure that such marketing is done keeping in view the objectives and strategies of the organisation and is seen as something having a long-term and vital significance to the future of the organisation. Further, such marketing should be derived from the business and corporate strategies and should be coordinated with other functional areas of the organisation.

1.2 UNDERSTANDING STRATEGY **LO 2**

Central to the process of strategic management is the concept of strategy that we will try to understand first. Thereafter, we will go on to discuss the process of strategic management.

The Concept of Strategy

The concept of strategy is central to understanding the process of strategic management. The term 'strategy' is derived from a Greek word *strategos*, which means generalship—the actual direction of military force, as distinct from the policy governing its deployment. Literally, therefore, the word 'strategy' means the art of the general. In business parlance, there is no definite meaning assigned to strategy. It is often used loosely to mean a number of things.

A strategy could be:[31]

- a plan or course of action or a set of decision rules making a pattern or creating a common thread;
- the pattern or common thread related to the organisation's activities which are derived from the policies, objectives, and goals;
- related to pursuing those activities which move an organisation from its current position to a desired future state;
- concerned with the resources necessary for implementing a plan or following a course of action; and
- connected to the strategic positioning of a firm, making trade-offs between its different activities, and creating a fit among these activities;
- the planned or actual coordination of the firm's major goals and actions, in time and space that continuously co-align the firm with its environment.

In simplified terms, a strategy is the means to achieve objectives. In complex terms, it may possess all the characteristics mentioned earlier. With so many different interpretations of a term it is really difficult to fathom what strategy really means. This is understandable. Yet, we need to consider all these interpretations simultaneously. Grappling with the diversity of interpretations gives us valuable insights into what thinkers and writers have proposed from time to time. With the wealth of understanding we have at our command courtesy the intellectuals who contributed to creating it, we can broaden our thinking. Strategic management benefits much from such an approach of looking at issues holistically. Practice of strategic management by case analysis and discussion aids in clarifying the issues. Just as there are two sides to a coin, strategy often emerges as a concept having two differing perspectives thereby making it a paradox. The process of solving the paradox leading to synthesis is an interesting practice that leads to greater understanding. This point is elaborated in Exhibit 1.3.

Exhibit 1.3 Strategy as Paradox

Bob De Wit and Ron Meyer have authored a highly readable book titled *Strategy Synthesis*. The approach adopted in the book is very different from the common strategy texts. De Wit and Meyer consider strategy as a paradox. This is so because "[a]t the heart of every set of strategic issues, a fundamental tension between apparent opposites can be identified". (p. 13). The challenge is to grapple with these tensions. Basically, these tensions arise owing to the different assumptions that strategy theorists make in enunciating their theories. On every conceivable strategy topic, there are two diametrically opposite perspectives creating a paradox. It requires considerable debate to transcend the paradox and come out with synthesis that creatively combines the two differing perspectives.

The idea of De Wit and Meyer can be illustrated in the case of competition versus cooperation. Organisations are often confronted with this paradox of whether to achieve success through competing or cooperating with their rivals. A large body of strategy literature is firmly rooted in the assumption that competing is essential to winning. On the other hand, there is convincing evidence that cooperation also can create winning situations. So what should the organisation do? The paradox is: compete or cooperate. Some theorists have come up with the idea of 'co-opetition strategy' that refers to simultaneous competing and cooperation trying to beat the paradox.

Another paradoxical situation arises when organisations have to decide to remain within the national boundaries or go international. This is the paradox of globalisation versus localisation. In dealing with this paradox organisations are confronted with the differing perspectives of global convergence versus international diversity. Practically, this means whether the organisation should offer the same product globally or adapt it to suit the different national markets it serves. There is an approach that combines the differing perspectives and is called the 'transnational strategy' where the organisation attempts to combine global scale of production with local responsiveness to national markets thereby creating a winning situation.

Strategy, according to De Wit and Meyer, is a highly complex issue and the two sides of any issue need to be thoroughly debated to bring to the fore synthesis that is unique to each thinker. In such a manner, strategy emerges as synthesis out of the process of intellectual churning of the two opposing perspectives.

Source: Bob De Wit and Ron Meyer, *Strategy Synthesis: Resolving Strategy Paradoxes to Create Competitive Advantage* 3rd ed. (London: South-Western Cengage Learning, 2010) and Bob De Wit and Ron Meyer, *Strategy: Process, Content, Context* 4th ed. (London: South-Western Cengage Learning, 2010).

Undoubtedly strategy is one of the most significant concepts to emerge in the subject of management studies in the recent past. Its applicability, relevance, potential, and viability have been put to a severe test. It has emerged as a critical input to organisational success and has come in handy as a tool to deal with the uncertainties that organisations face. It has helped reduce ambiguity and has provided a solid foundation as a theory to conduct business—a convenient way to structure the many variables that operate in the organisational context and to understand their interrelationship. It has aided thinkers and practitioners in formulating their thoughts in an ordered manner and to apply them in practice. There have been several such benefits yet there have been some pitfalls too.

It would be prudent on our part to realise that blind adherence to the postulations of strategy should not be there. The limitations of the concept of strategy also need to be understood. This is likely to elicit a mature response so that the full potential of this powerful concept can be realised. It is also intended to provide a balanced understanding of the concept of strategy. Here are two points for consideration to temper our enthusiasm in embracing the concept of strategy.

1. The application of the concept of strategy to real-life situations may tend to oversimplify things. Actual situations are complex and contain several variables that are not amenable to structuring. The concept of strategy tends to distort reality and, as an abstraction of reality, it is anything but a true reflection of the actual situation. Of course, this limitation is not unique to strategy. It is there in any situation where modelling has to be resorted to provide a structured understanding of reality. Several mathematical formulations start with the phrase indicating that a certain number of variables are assumed to be constant.
2. The application of the concept of strategy commits an organisation to a predetermined course of action. While this is essential to chart out a path ahead, it often blinds the organisation to the emergent situations as one goes along the path. Rigidity leads to an attitude of finality with regard to the situations that are actually not known at the time of starting the journey. It might be better, for instance, to move slowly, one step at a time, and keep in mind the maxim "look before you leap". One might say that this is already known to the perceptive managers. Yet there is no harm in being cautious. Discretion is certainly the better part of valour.

Let us proceed with a basic understanding of the concept of strategy also keeping in mind its limitations to see the levels within an organisation at which strategy operates.

Levels at which Strategy Operates

It is not uncommon to find many companies, or a group of companies, working in different business lines with regard to either products/services, markets or technology. Here are a few illustrations:

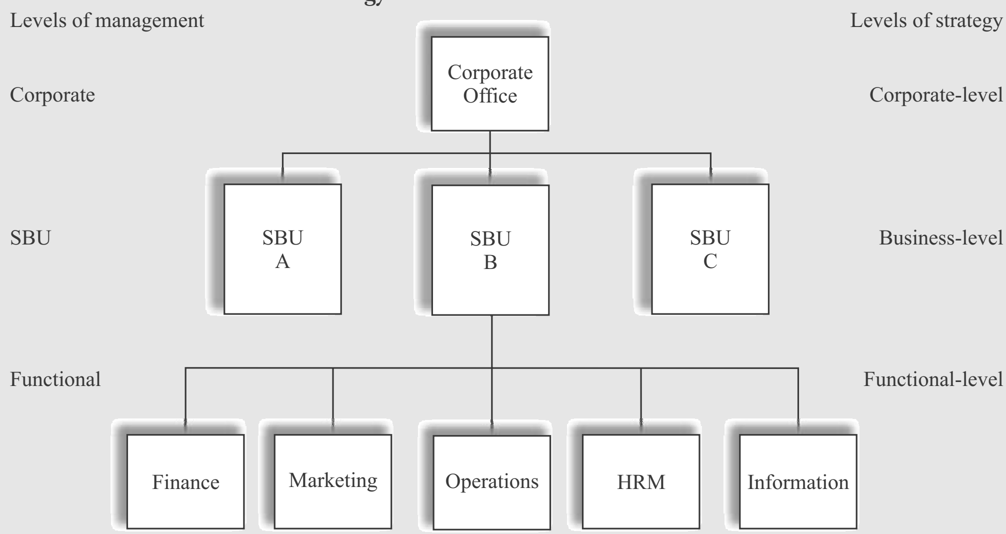
- Balmer Lawrie, a public sector company, has a diversified portfolio of businesses in the fields of industrial packaging, greases and lubricants, performance chemicals, tours and travel, logistics infrastructure, logistics services, and refinery and oilfield services.
- Finolex Group is a business conglomerate with interests in diverse areas such as telecommunications, petrochemicals, irrigation, and education.
- Hindustan Unilever organises itself into two businesses of home and personal care and foods.
- TVS Group has 51 companies ranging from Axles India to ZF Electronics that operate in technology areas as diverse as airbrake systems, aluminium castings, automotive components, computer peripherals, software design, and two-wheelers.

For many companies, such as those illustrated earlier, a single strategy is not only inadequate but also inappropriate. The need is for multiple strategies at different levels. In order to segregate different units or segments, each performing a common set of activities, many companies organise on the basis of operating divisions or, simply, divisions. These divisions may also be known as profit centres or SBUs. An SBU, as defined by Sharplin, is "any part of a business organisation which is treated separately for strategic management purpose."[32]

Generally, SBUs are involved in a single line of business. A complementary concept to SBU, valid for external environment of a company is strategic business area (SBA). It is defined as "a distinctive segment of the environment in which the firm does (or may want to do) business."[33]

A number of SBUs, relevant for different SBAs, form a cluster of units under a corporate umbrella. Each SBU has its own functional departments or a few major functional departments while common functions are grouped under the corporate level. These different levels are illustrated in Exhibit 1.4. Two types of levels are depicted in this Exhibit. One relates to the organisational levels or hierarchies and the other to the strategic levels. The organisational levels are those of the corporate, SBU, and functional levels. The strategic levels are those of the corporate, SBU, and functional levels strategies.

Exhibit 1.4 Different Levels of Strategy



Corporate level strategy is an overarching plan of action covering the various functions performed by different SBUs. The plan deals with the objectives of the company, allocation of resources, and coordination of the SBUs for optimal performance.

Strategic Business Unit level (or business) strategy is a comprehensive plan providing objectives for SBUs, allocating resources among functional areas, and coordinating between them for maximising optimal contributions to the achievement of the corporate level objectives

Functional strategy deals with a relatively restricted plan providing objectives for a specific function, allocating resources among different operations within that functional area and coordinating between them for optimal contribution to the achievement of the SBU and corporate-level objectives.

Panacea Biotec is a health management company in India involved in research, manufacturing and marketing of pharmaceuticals, biopharmaceuticals, new chemical entities, natural products, and vaccines. Historically, it has moved through a division-based structure and is now organised into six SBUs: PRO Care, Diacar Alpha, Diacar Delta, GROW Care, Onco Trust, and Critical Care. Such a structure, the company believes, enables it to respond to changes in the industry and marketplace with speed and sensitivity. Critical Care is focused on Nephrology, Diacar for diabetes and cardiovascular management, PRO SBU promotes therapeutic products, GROW SBU caters to clinicians across the country, and BOH offers therapeutic solutions to cater to specific needs of customers and promotes natural products developed through modern technology and extensive research.[34]

Another example of a company using multiple-level planning is Bajaj Electricals Ltd. (BEL). It is a part of Bajaj Group which is in the business of steel, sugar, two-wheelers, and three-wheelers besides consumer electrical products. The company commissioned Accenture that was instrumental in recommending a comprehensive strategy for business growth along with organisational restructuring. Bajaj Electricals Ltd. has five major SBUs comprising home appliances, fans, lighting, luminaires, and engineering and projects. The SBU structure aims to lend greater empowerment to the employees and also bring about a significant accountability for the performance of each SBU with the SBU head and his senior team.[35]

Apart from the three levels at which strategic plans are made, companies plan occasionally at some other levels too. Often, firms set strategies at a level higher than the corporate-level. These are called the societal strategies. Based on a mission statement, a societal strategy is a generalised view of how the corporation relates itself to the society in terms of a particular need or a set of needs that it strives to fulfil. Corporate-level strategies could then be based on the societal strategy. Suppose a corporation decides to provide alternative sources of energy for the society at an optimum price and based on the latest available technology. On the basis of its societal strategy, the corporation has a number of alternatives with regard to the businesses it can take up. It can either be a manufacturer of nuclear power reactors, a maker of equipment used for tapping solar energy, or a builder of windmills among other alternatives. The choice is wide and being in one of such diverse fields would still keep the corporation within the limits set by its societal strategy. Corporate- and business-level strategies derive their rationale from the societal strategy.

Some strategies are required to be set at lower levels. One step down the functional level, a company could set its operational level strategies. Each functional area could have a number of operational strategies. These would deal with a highly specific and narrowly defined area. For instance, a functional strategy at the marketing level could be subdivided into sales, distribution, pricing, product, and advertising strategies.

Activities in each of the operational areas of marketing, whether sales or advertising, could be performed in such a way that they contribute to the functional objectives of the marketing department. The functional strategy of marketing is interlinked with those of the finance, production, and personnel departments. All these functional strategies operate under the SBU-level. Different SBU-level strategies are put into action under the corporate-level strategy which, in turn, is derived from the societal-level strategy of corporation. Ideally, a perfect match is envisaged among all strategies at different levels so that a corporation, its constituent companies, their different SBUs, functions in each SBU, and various operational areas in every functional area are synchronised. When perceived in this manner, the organisation moves ahead, towards its objectives and mission, like a well-oiled machine. Such an ideal, though extremely difficult—if not impossible to attain—is the intent of strategic management.*

Societal strategies manifest in the form of the vision and mission statements while functional and operational strategies take the shape of functional and operational implementation respectively.

A reading of this section gives an impression as if an organisation could have a number of strategies at different levels and that would solve its strategic problems or lay down the groundwork for its strategic success. Mark the words used: "the organisation moves ahead ...like a well-oiled machine". In reality, however, rarely does an organisation move ahead so smoothly. The next section provides an overview of the strategic decision-making process.

1.3 STRATEGIC DECISION-MAKING **LO 3**

Decision-making is the most important function of any manager. Strategic decision-making is the primary task of the senior management. Both these kinds of decision-making are essentially the same. The difference lies in the levels at which they operate. While decision-making pertains to all managerial functions, strategic decision-making largely relates to the responsibilities of the senior management.

Most people agree that decision-making is the process of selecting a course of action from among many alternatives. The process works somewhat like this:

- objectives to be achieved are determined;
- alternative ways of achieving the objectives are identified;
- each alternative is evaluated in terms of its objective-achieving ability; and
- the best alternative is chosen.

*A note of caution to readers here: when we refer to strategy in strategic management texts, it is generally meant to be a corporate-level strategy or a business- or SBU-level strategy.

The end result of this process is a decision or a set of decisions which are to be implemented. Such a process of decision-making is deceptively simple. In practice, decision-making is a highly complex phenomenon.

The first set of problems encountered in decision-making is related to objective-setting. Second, the identification of alternatives is a difficult task. How to test the objective-achieving ability of each alternative is easier said than done. Last, choosing the best alternative is a formidable task too.

The problems encountered in decision-making, as indicated previously, are experienced by all managers in the course of their day-to-day activities. On the other hand, strategic tasks are, by their very nature, complex and varied. Decision-making in performing strategic tasks is, therefore, an extremely difficult, complicated and, at times, intriguing and enigmatic process.

Here is an illustration of strategic decision-making in an Ahmedabad-based medium-sized company. Note how the top management takes steps to implement its growth strategies through a series of strategic decisions. Astral Poly Technik Ltd. is a manufacturer and provider of chlorinated polyvinyl chloride (CPVC) piping and plumbing systems. Mr. Sandeep Engineer, its managing director, reported a strategic decision of manufacturing and marketing the "BlazeMaster" fire sprinkler system, under an agreement, with the $4-billion global specialty chemical company, Lubrizol, whose wholly-owned subsidiary Noveon Inc. makes BlazeMaster. For this purpose, Astral signed a licence agreement with Noveon to manufacture and market its fire sprinkler system under the brand name of BlazeMaster, which is a trademark of Noveon. The company, in order to strengthen its business plans, had taken a strategic decision to enter into a techno-financial joint venture with Specialty Process LLC of USA, which provided it the required technical expertise for manufacturing CPVC pipes and fittings for home and industrial applications. Astral was also going for an initial public offering to further its growth plans.

The basic thrust of strategic decision-making, in the process of strategic management, is to make a choice regarding the courses of action to adopt. Thus, most aspects of strategy formulation rest on strategic decision-making. The fundamental strategic decision relates to the choice of a mission. In other words, the basic concern in strategic management is to seek answers to questions such as: What is our business? What will it be? and What should it be? With regard to objective-setting, the senior management is faced with alternatives regarding the different yardsticks to measure performance. Finally, at the level of choosing a strategy, the senior management exercises a choice from among a number of strategic alternatives in order to adopt one specific course of action which would make the company achieve its objectives and realise its mission.

Apart from the fundamental decisional choice, as pointed earlier, there are numerous occasions when the senior management has to make important strategic decisions. Environmental threats and opportunities are abundant; it is only a few that the senior management focuses its attention on. Company strengths and weaknesses, likewise, are many; the senior management considers only a limited number at any given time. With regard to resource allocation, the management faces a strategic choice from among a number of alternatives that it would allocate resources to. Thus, strategic decision-making forms the core of strategic management.

Issues in Strategic Decision-Making

Being a complex process, strategic decision-making is difficult to perform. It is incomprehensible; it cannot be analysed and explained easily. Decision-makers are unable to describe the exact manner in which strategic decisions are made. Like the working of the human mind, strategic decision-making is fathomless; and rightly so, for it is based on complex mental processes which are not exposed to view. Henry Mintzberg, commenting on the nature of strategic decision-making says that "the key managerial processes are enormously complex and mysterious, drawing on the vaguest of information and using the least articulated of mental processes. These processes seem to be more relational and holistic than ordered and sequential, and more intuitive than intellectual...".[37]

For these reasons, no theoretical model, however, painstakingly formulated, can adequately represent the different dimensions of the process of strategic decision-making. Despite these limitations, we can still attempt to understand strategic decision-making by considering some important issues related to it. We deal with six such issues.

1. Criteria for Decision-making The process of decision-making requires objective-setting. These objectives serve as yardsticks to measure the efficiency and effectiveness of the decision-making process. In this way, objectives serve as criteria for decision-making. There are three major viewpoints regarding setting criteria for decision-making.

(a) The first is the concept of *maximisation*. It is based on the thinking of economists who consider objectives as those attributes which are set at the highest point. The behaviour of the firm is oriented towards achieving these objectives and, in the process, maximising its returns.
(b) The second view is based on the concept of *satisfying*. This envisages setting objectives in such a manner that the firm can achieve them realistically through a process of optimisation.
(c) The third viewpoint is that of the concept of *incrementalism*. According to this, the behaviour of the firm is complex and the process of decision-making, which includes objective-setting, is, essentially a continually-evolving political consensus-building. Through such an approach, the firm moves towards its objectives in small, logical, and incremental steps.

2. Rationality in Decision-making Rationality, in the context of strategic decision-making, means exercising a choice from among various alternative courses of action in such a way that it leads to the achievement of objectives in the best possible manner. The economists who support the maximising criterion consider a decision to be rational if it leads to profit maximisation. Behaviourists, who are the proponents of the satisfying concept, believe that rationality takes into account the constraints under which a decision-maker operates. Incrementalists are of the opinion that the achievement of objectives depends on the bargaining process between different interested coalition groups existing in an organisation and therefore, a rational decision-making process should take all these interests into consideration.

3. Creativity in Decision-making To be creative, a decision must be original and different. A creative strategic decision-making process may considerably affect the search for alternatives where novel and untried means may be looked for and adopted to achieve objectives in an exceptional manner. Creativity, as a trait, is normally associated with individuals and is sought to be developed through techniques such as brainstorming. You may recall that one of the attitudinal objectives of a strategic management course is to develop the ability to go beyond and think, which, in other words, is using creativity in strategic decision-making.

4. Variability in Decision-making It is a common observation that, given an identical set of conditions, two decision-makers may reach totally different conclusions. This often happens during case discussions. A case may be analysed differently by individuals in a group of learners and, depending on the differing perceptions of the problem and its solutions, they may arrive at different conclusions. Such things happen due to variability in decision-making. It also suggests that every situation is unique and there are no set formulas that can be applied in strategic decision-making.

5. Person-related Factors in Decision-making There are a host of person-related factors that play a role in decision-making. Some of these are: age, education, intelligence, personal values, cognitive styles, risk-taking ability, and creativity. Attributes like age, knowledge, intelligence, risk-taking ability, and creativity are generally supposed to play a positive role in strategic decision-making. A cognitive style which enables a person to assimilate a lot of information and to interrelate complex variables to develop an integrated view of the situation is especially helpful in strategic decision-making. Values, as enduring prescriptive beliefs, are culture-specific and important in matters of social responsibility and business ethics: issues that are important to strategic management.

6. Individual Versus Group Decision-making Owing to person-related factors, there are individual differences among decision-makers. These differences matter in strategic decision-making. An organisation, possessing special characteristics, operates in a unique environment. Decision-makers who understand an organisation's characteristics and its environment are in a vantage position to undertake strategic decision-making. Individuals such as chief executives or entrepreneurs play the most important role as strategic decision-makers. But as organisations become bigger and more complex and face an increasingly turbulent environment, individuals come together in groups for the purpose of strategic decision-making.

Strategic decision-making leads to the formation of strategies. Strategy has been viewed from several perspectives. In some cases, it is seen as something which arises systematically due to conscious decision-making. Yet, others see it as the product of a messy and complicated series of manoeuvres. On the basis of an understanding of the nature of strategic decision-making and the issues related to it, let us now move ahead to study the different perspectives to strategy.

1.4 SCHOOLS OF THOUGHT ON STRATEGY FORMATION LO 4

The subject of strategic management is in the midst of an evolutionary process. In the course of its development, several strands of thinking are emerging which are gradually leading to a convergence of views. This is a subtle indication of the maturing of the subject of strategic management. We now have a wealth of insight into the complexities of strategic behaviour—the observable characteristics of the manner in which an organisation performs decision-making and planning functions with regard to issues that are of strategic importance to its survival, growth, and profitability. Strategic decision-making is the core of managerial activity; strategic behaviour is its manifestation while the outcome is the formation of strategy.

Here, in this section, we dwell upon the compendium of various perspectives to strategy formation that have evolved over a period of time. Several persons, among them the doyens in the field of strategy, have contributed to the formulation of these perspectives.* Indeed, Mintzberg and his associates, from whose writings these perspectives have been adopted here, call them the 10 schools of thought on strategy formation.[38]

The schools of thought are classified under three groups that are as follows:.

The Prescriptive Schools

1. Design school where strategy formation is a process of conception
2. Planning school where strategy formation is a formal process
3. Positioning school where strategy formation is an analytical process

The Descriptive Schools

4. Entrepreneurial school where strategy formation is a visionary process
5. Cognitive school where strategy formation is a mental process
6. Learning school where the strategy formation is an emergent process
7. Power school where the strategy formation is a negotiation process
8. Cultural school where the strategy formation is a collective process
9. Environmental process where the strategy formation is a reactive process

*For the reader, these offer a meaningful insight into the development of the thought of strategy.

The Integrative School

10. Configuration school where the strategy formation is a process of transformation

A description and explanation of each school of thought is provided as follows:

1. The Design School which perceives strategy formation as a process of conception developed mainly in the late-1950s and the 1960s. Under this school, strategy is seen as something unique and which is in the form of a planned perspective. The chief executive officer as the main architect guides the process of strategy formation. The process of strategy formation is simple and informal based on judgement and thinking. The major contributors to the design school are Selznick (1957) and Andrews (1965).

2. The Planning School which perceives strategy formation as a formal process developed mainly in the 1960s. Under this school, strategy is seen as a plan divided into sub-strategies and programmes. The lead role in strategy formation is played by the planners. The process of strategy formation is formal and deliberate. The major contributor to the planning school is Ansoff (1965).

3. The Positioning School which perceives strategy formation as an analytical process developed mainly in the 1970s and the 1980s. Under this school, strategy is seen as planned generic positions chosen by the firms on the basis of analysis of competition and the industry in which they operate. The lead role in strategy formation is played by the analysts. The process of strategy formation is analytical, systematic, and deliberate. The major contributors to the positioning school are Schendel and Hatten (1970s) and Porter (1980s).

4. The Entrepreneurial School which perceives strategy formation as a visionary process developed mainly in the 1950s. Under this school, strategy is seen as the outcome of a personal and unique perspective often aimed at the creation of a niche. The lead role in strategy formation in strategy formation is played by the entrepreneur/leader. The process of strategy formation is intuitive, visionary, and largely deliberate. The major contributors to the entrepreneurial school are Schumpeter (1950s), Cole (1959), and several others most of whom are economists.

5. The Cognitive School which perceives strategy formation as a mental process developed mainly in the 1940s and the 1950s. Under this school, strategy is seen as an individual concept that is the outcome of a mental perspective. The lead role in strategy formation is played by the thinker-philosopher. The process of strategy formation is mental and emergent. The major contributors to the cognitive school are Simon (1947 and 1957) and March and Simon (1958).

6. The learning school which perceives strategy formation as an emergent process has had a legacy from the 1950s through the 1990s. Under this school, strategy is seen as a pattern that is unique. The lead role is played by the learner within the organisation whoever that might be. The process of strategy formation is emergent, informal, and messy. The major contributors to the learning school are Lindblom (1959, 1960), Cyert and March (1963), Weick (1969), Quinn (1980), Senge (1990) and Prahalad and Hamel (the early 1990s).

7. The Power School which perceives strategy formation as a negotiation process developed mainly during the 1970s and the 1980s. Under this school, strategy is seen as a political and cooperative process or pattern. The lead role in strategy formation is played by any person in power (at the micro level) and the whole organisation (at the macro level). The process of strategy formation is messy consisting of conflict, aggression and cooperation. At the micro level the process of strategy formation is emergent while at the macro level it is deliberate. The major contributors to the power school are Allison (1971), Pfeffer and Salancik (1978), and Astley (1984).

8. The Cultural School which perceives strategy formation as a collective process developed mainly in the 1960s. Under this school, strategy is seen as a unique and collective perspective. The lead role in strategy formation is played by collectivism displayed within the organisation. The process of strategy formation is ideological, constrained, collective, and deliberate. The major contributors to the cultural school are Rhenman and Normann (the late 1960s).

9. The Environmental School which perceives strategy formation as a reactive process developed mainly in the late 1960s and the 1970s. Under this school, strategy is seen as something generic occupying specific positions or niche in relation to the environment. The lead role in strategy formation is played by the environment as entity. The process of strategy formation is passive and imposed and hence emergent. The major contributors to the environmental school are Hannan and Freeman (1977) and contingency theorists like Pugh *et al.* (the late 1970s).

10. The Configuration School which perceives strategy formation as a transformation process developed during the 1960s and the 1970s. Under this school, strategy is viewed in relation to a specific context and thus could be in the form that corresponds to any process visualised under any of the other nine schools of thought. The lead role may be played by any actor identified in the other nine schools of thought. The process of strategy formation is integrative, episodic, and sequential. In addition, the process could incorporate the other elements pointed out under the other nine schools of thought. The major contributors to the configuration school are Chandler (1962), Mintzberg and Miller (the late 1970s), and Miles and Snow (1978).

Strategic management, a newer and broader concept of managing organisations strategically, takes into account all the aspects of managerial problems, the processes of solving them, and the many variables that operate in a problem-solving environment.

We take up the topic of strategic management for discussion in the next section.

1.5 INTRODUCTION TO STRATEGIC MANAGEMENT LEVEL **LO 5**

Strategic decision-making is done through the process of strategic management. In this section, we deal with four aspects: a definition of strategic management; the different phases in the process of strategic management; the elements this process contains; and lastly, the model of strategic management that we adopt in this book.

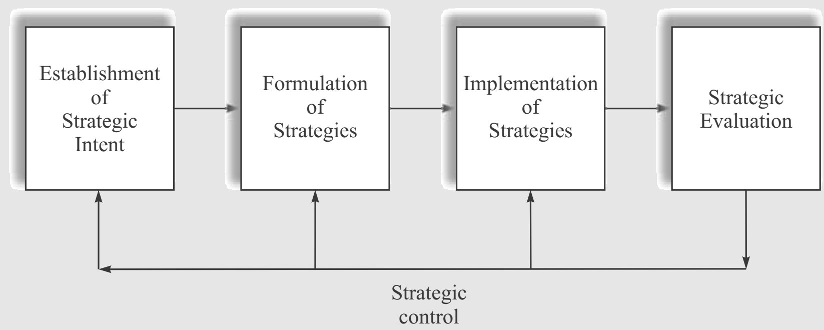
Definition of Strategic Management

In this text, strategic management is defined as *the dynamic process of formulation, implementation, evaluation, and control of strategies to realise the organisation's strategic intent.*

First, strategic management is a dynamic process. It is not a one-time, static or mechanistic process. By being dynamic, strategic management is a continual, evolving, iterative process. By this, it means that strategic management cannot be a rigid, step-wise collection of a few activities arranged in a sequential order. Rather, it is a continually evolving mosaic of relevant activities. Managers perform these activities in any order contingent upon the situation they face at a particular time. By being iterative, an activity may not only be performed once but repeated over time as the situation demands.

The next part of the definition states the four phases in the strategic management process of formulation, implementation, and evaluation and control. The four phases are shown in Exhibit 1.5.

Exhibit 1.5 Four Phases in Strategic Management Process



The first phase consists of establishing the strategic intent for the organisation. In this text, strategic intent is the hierarchy of objectives that an organisation sets for itself. Within this, there are vision, mission, business definition, and objectives. The aim of strategic management is to help the organisation realise its strategic intent.

The second phase of the formulation of strategies is concerned with the devising of a strategy or a few strategies. This phase is also called strategic planning. Essentially, this is an analytical phase in which strategists (managers who are responsible for strategic management in an organisation) think, analyse, and plan strategies.

The third phase of implementation is the 'putting into action' phase. The strategies that are formulated are implemented through a series of administrative and managerial actions.

The fourth, and the last, phase of evaluation and control involves assessing how appropriately the strategies were formulated and how effectively they are being implemented. Depending on the outcome of assessment, actions could be taken ranging from fine-tuning implementation to a drastic reformulation of strategies.

These four phases are considered as sequentially linked to each other and each successive phase provides a feedback to the previous phases. However, in practice, the different phases of strategic management may not be clearly differentiable from each other. In fact, we prefer to call them phases rather than stages or steps (as some authors do) to signify that the different phases, at the interface, may exist simultaneously and the strategic activities gradually emerge in one phase to merge into the following phase. The feedback arising from each of the successive phases is meant to revise, reformulate, or redefine the previous phases, if necessary. Such a representation yields a dynamic model of strategic management which takes into account the emerging factors as the process moves on.

Elements in Strategic Management Process

Each phase of the strategic management process consists of a number of elements, which are discrete and identifiable activities performed in logical and sequential steps. As many as 20 different elements could be identified in the models provided by various authors. From the literature on strategic management, we note that most or all of the following activities are considered as parts of the strategic management process:

A. *Establishing the hierarchy of strategic intent:*
   1. Creating and communicating a vision
   2. Designing a mission statement
   3. Defining the business
   4. Adopting the business model
   5. Setting objectives

B. *Formulation of strategies:*
   6. Performing environmental appraisals
   7. Doing organisational appraisals
   8. Formulating corporate-level strategies
   9. Formulating business-level strategies
   10. Undertaking strategic analysis
   11. Exercising strategic choice
   12. Preparing strategic plan

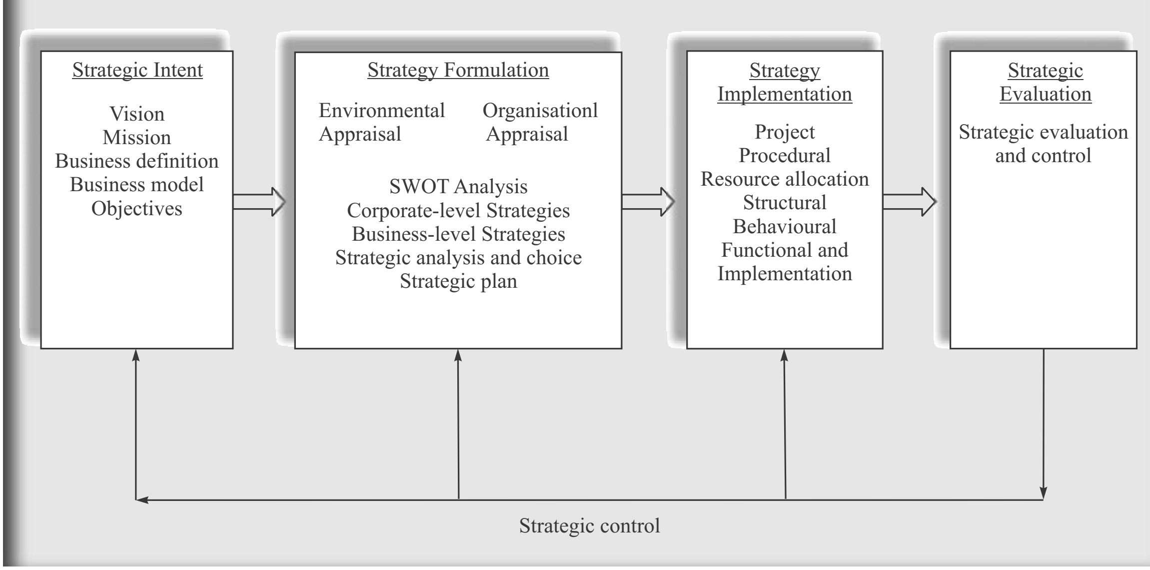
C. *Implementation of strategies:*
   13. Activating strategies
   14. Designing structure, systems, and processes
   15. Managing behavioural implementations
   16. Managing functional implementations
   17. Putting strategies into operation

D. *Performing strategic evaluation and control:*
   18. Performing strategic evaluation
   19. Exercising strategic control
   20. Reformulating strategies

Model of Strategic Management Process

The process of strategic management 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 20 elements. The model of strategic management that we adopt in this book is provided in Exhibit 1.6.

Exhibit 1.6 Comprehensive Model of Strategic Management



The subsequent chapters will deal with the various elements of the strategic management process. Here, we present a bird's-eye view of the different elements of the process.

1. The hierarchy of strategic intent lays the foundation for the strategic management of any organisation. In this hierarchy, the vision, mission, business definition, business model, and objectives are established. The strategic intent makes clear what the organisation stands for. The element of vision in the hierarchy of strategic intent serves the purpose of stating what the organisation wishes to achieve in the long run. The mission relates the organisation to the society. The business definition explains the businesses of the organisation in terms of the customer needs, customer groups, and alternative technologies. The business model clarifies how the organisation creates revenue. The objectives of the organisation state what is to be achieved in a given time period. These objectives then serve as yardsticks and benchmarks for measuring organisational performance (Chapter 2).
2. Environmental and organisational appraisals deal with identifying the opportunities and threats operating in the environment and the strengths and weaknesses of the organisation in order to create a match between them. In such a manner, opportunities could be availed of and the impact of threats neutralised in order to capitalise on the organisational strengths and minimise the weaknesses (Chapters 4 and 5).
3. Formulation of strategies takes place at four levels: corporate, business, functional, and operational. Among these levels, the major are the corporate and business levels. Corporate level strategies relate to the strategic decisions to manage a portfolio of businesses. Business strategies aim to develop competitive advantage in the individual businesses that a company has in its portfolio. There are methods to pursue these strategies such as strategic alliances and mergers and acquisitions (Chapters 6, 7, and 8).
4. 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 (Chapter 9).
5. For implementation of strategy, the strategic plan is put into action through six sub-processes: project implementation, procedural implementation, resource allocation, structural, behavioural implementation, and functional and procedural implementation. Project implementation deals with setting up the organisation. Procedural implementation deals with different aspects of regulatory framework within which Indian organisations have to operate. Resource allocation relates to the procurement and commitment of resources for implementation. The structural aspects of implementation deal with the design of appropriate organisational structures and systems and reorganising for matching the structure to the needs of strategy. The behavioural aspects consider the leadership styles for implementing strategies and other issues like corporate power and politics, corporate culture, and business ethics and personal values. The functional aspects relate to the policies to be formulated in different functional areas. The operational implementation deals with the productivity, processes, people, and pace of implementing the strategies. The emphasis in the implementation phase of strategic management is on action (Chapters 10, 11, 12, and 13).
6. The last phase of strategic evaluation appraises the implementation of strategies and measures organisational performance. The feedback from strategic evaluation is meant to exercise strategic control over the strategic management process. Strategies may be reformulated, if necessary (Chapter 14).

Summary by Learning Objectives

Being the first chapter, this is intended to be introductory in nature. We gain familiarity with the course of strategic management by learning about its history and its present status.

LO 1 *Develop awareness about the historical development of strategic management in India and around the world*

The main points covered in this course are as follows:

- It is interesting to know about the evolution of any course that you are learning. Strategic management has had an interesting history that we learn from different perspectives. We see the genesis of strategic management from the perspectives of administrative steps taken to make this course a part of management curriculum, the evolution of managerial practices in the area of planning, and in historical terms where we see four paradigm shifts in the development of the strategic management course.

- The paradigm shifts that denote the development of the strategic management discipline are of *ad hoc* policymaking, planned policy formulation, concept of strategy, and the emergence of strategic management. We also noted that the discipline of strategic management is in an exciting stage of development and has great potential for offering workable, practical solutions to organisations.
- There are pointers to the future development as we note the advances in the refinement of the strategic management process and models. New courses, specialties, and fundamental questions have emerged to guide the development. Yet the field of strategic management has competing prescriptions that would require synthesis.
- The significant issues that confront the theory and practice of strategic management revolve around the questions of how do firms behave? Why are firms different? What is the function of or value added by the headquarters unit in a diversified firm? and What determines success or failure in international competition?
- The Indian scenario presents an encouraging picture of the development of strategic management. We find that almost all management education programmes have a component in the curriculum devoted to strategic management. Research in strategic management, though perfunctory, is slowly picking up. Business press has a wider coverage of the strategic management issues. Practice in organisations is fast imbibing the tenets of strategic management. The processes of liberalisation, globalisation, and privatisation have provided a fillip to the adoption of strategic management principles by organisations. An encouraging development is seen in terms of increasing India-focused international research studies.

LO 2 *Grasp the concept of strategy and its limitations*

- Next an attempt has been made to understand the nature of strategic management through a definition and its explanation. The nature of strategic management deals with studying the functions and responsibilities of the senior management. These involve setting the future course of action by defining the purpose of an organisation and the likely shape that is should take in future. The senior management is also concerned with the resources necessary to help the organisation achieve its goals.
- The concept of strategy is central to understanding the process of strategic management. Based on several definitions available in strategic management literature we derived that strategy is: (a) a plan or course of action or a set of decision rules making a pattern or creating a common thread; (b) the pattern or common thread related to the organisation's activities which are derived from the policies, objectives, and goals; (c) related to pursuing those activities which move an organisation from its current position to a desired future state; (d) concerned with the resources necessary for implementing a plan or following a course of action; (e) connected to the strategic positioning of a firm, making trade-offs between its different activities, and creating a fit among these activities; and (f) the planned or actual coordination of the firm's major goals and actions, in time and space, that continuously co-align the firm with its environment.
- Strategy operates at different levels. Mainly, strategies are formulated at the corporate level, SBU (or business) level, and functional level. Besides these, societal strategies on the top and operational strategies at the bottom are also sometimes specified. While explaining the different levels at which strategy may operate, we have also seen how these strategies can be coordinated.

LO 3 *Learn how the process of strategic decision-making works*

- We have compared conventional and strategic decision-making and illustrated how complex the later form of decision-making is. Strategic decision-making is the primary task of the senior management. Decision-making in performing strategic tasks is an extremely difficult, complicated and, at times, intriguing and enigmatic process. Strategic decision-making leads to the formation of strategies.
- The different dimensions of the process of strategic decision-making are encapsulated in the six issues related to it: criteria for decision-making, rationality in decision-making, creativity in decision-making, variability in decision-making, person-related fac-

tors in decision-making, and individual versus group decision-making.

LO 4 *Develop awareness about the various schools of thought on strategy formation*

- Ten schools of thought on strategy formation are reviewed to provide you a panoramic view of this interesting subject. The schools are divided into three groups. The prescriptive school consists of the design, planning, and positioning schools. The descriptive school consists of the entrepreneurial, cognitive, learning, power, cultural, and environment process schools. The integrative school has just the configuration school where the strategy formation is a process of transformation.

LO 5 *Gain command of how the strategic management process operates*

- Strategic management is defined in this book as *the dynamic process of formulation, implementation, evaluation, and control of strategies to realise the organisation's strategic intent.*
- The process of strategic management consists of four phases: establishing the strategic intent, formulation of strategies, implementation of strategies, and strategic evaluation and control.
- There are several elements in the process of strategic management. We identified 20 different elements spread over the four phases of strategic management process.

EXERCISE

Short-answer Questions

1. Strategic management is a capstone, integrative course. Explain the statement. **(LO 1)**
2. What are the four paradigm shifts strategic management has moved through in the course of its historical evolution? **(LO 1)**
3. State some pointers to the future directions of strategic management. **(LO 1)**
4. Can we characterise the development of strategic management in India as promising? Why? **(LO 1)**
5. What is the scope of strategic management? (**LO 2, LO 5)**
6. What is the concept of strategy? **(LO 2)**
7. Point out, at least, two limitations of the concept of strategy. **(LO 2)**
8. What are the different levels at which strategy operates? **(LO 2)**
9. What is strategic decision-making? **(LO 3)**
10. Enumerate the major issues in strategic decision-making. **(LO 3)**
11. List the 10 schools of thought on strategy formation. **(LO 4)**
12. Define strategic management. **(LO 5)**
13. Enumerate the elements in the strategic management process. **(LO 5)**

Assurance of Learning Exercises

1. Write a descriptive note on the historical evolution of strategic management in India and the world. **(LO 1)**
2. Explain the concept of strategy and point out its limitations. **(LO 2)**
3. Pick up business magazines and newspapers. Locate the corporate reports of different types of companies. Identify the strategies that these companies are employing at present. Analyse the matter you have collected to write an explanatory note on the strategies being used by the Indian companies. **(LO 2)**
4. Review the literature in strategic management and read definitions of strategy. Derive the essence of the concept of strategy from these definitions and prepare a lucid note explaining the various components of the concept of strategy. **(LO 2)**
5. Describe the different levels at which strategy operates. How is integration of strategies operating at different levels done? **(LO 2)**
6. Discuss the issues that are relevant for strategic decision-making. **(LO 3)**
7. Make a comparative assessment of the different schools of strategy thought. Derive clearly the meaning of the configuration school. **(LO 4)**
8. Describe the process of strategic management. Draw a neat chart showing comprehensively the different elements in the strategic management process. **(LO 5)**
9. Apply the strategic management model to your own case. Follow the process and identify the different elements such as your vision and mission, career objectives, your self-appraisal and the opportunities and threats operating in the job market, the career advancement strategies that you choose, and how you would implement these strategies and evaluate your performance. Describe what you have thought systematically according to the different phases of strategic management. **(LO 5)**

Review Case

STRATEGISING AT MURUGAPPA GROUP*

The Murugappa Group is a major conglomerate with its headquarters in Chennai. Starting in the early 1890s the Group was formed in Myanmar, then Burma, by the entrepreneur Dewan Bahadur A. M. Murugappa Chettiar as a money-lending and banking business. By 1947, when India achieved independence, the Group had entered into insurance, rubber, stockbroking, textiles, and trading often through opportunistic expansion through quick, though unplanned, entrepreneurial actions. The sagacity, insight, and political acumen of the senior Chettiar, till his death in 1949, enabled the business family to take timely actions to manoeuvre through a business environment continually buffeted by epoch-making events like the Great Depression, World War II, and India's independence. On the way, some businesses prospered while others withered away.

During the highly controlled and regulated environment in India from the 1950s through the 1990s, the Group ventured into several unrelated businesses while concentrating and integrating in quite a few of them. In 1949, for instance, Tube Investments of India was established to manufacture bicycles at Ambattur in Tamil Nadu in collaboration with the UK's Tube Investments. Eventually, the business became vertically integrated manufacturing a wide range of bicycle-related components such as tubes, strips, lamps and chains. Another venture Carborundum Universal was established in 1954, in association with Carborundum, USA, and Universal Grinding, UK, to make abrasives and grinding wheels. It went on to become a highly integrated business producing its own raw materials (bauxite), conducting mining and calcining, producing grains and making the final products.

A milestone year in the Group's history could well be 1979, when some of the companies floated public issues to garner funds for implementing expansion strategies. The following decade witnessed a succession of acquisitions, mergers, and divestments all leading to a situation when the Murugappa Group formally took shape in 1989. Acquisitions were a necessity since growth through new ventures was not possible owing to the stringent licensing regime.

In 1981, came a major acquisition in the form of EID Parry that was acquired from financial institutions. EID Parry was a sick unit having a diversified base in businesses such as ceramics, confectionary, fertilisers, electronics, and sugar. The Murugappa Group initiated a turnaround strategy. The next decade till the dawn of liberalisation in India in 1991, was interspersed with continual restructuring mainly involving a combination of divestment, takeover, and entering into joint ventures.

The Murugappa Group emerged as a professional group in 1993, ready to take advantage of the myriad opportunities that the emerging business environment offered. History repeated itself with the Group venturing into international markets. New businesses like bio-pesticides, ceramics' colours, nutraceuticals, and information technology were incorporated in the business portfolio. Nearly a decade of effort went into consolidation and focusing on core businesses.

The professionalisation of management at Murugappa Group was done by creating the Murugappa Corporate Board (MCB), composed of family members. The new business environment realities in India required rapid response capability from the Group especially pertaining to the reorganization of the business portfolio. M.V. Subbiah, grandson of founder A.M. Murugappa, led the way for a new governance structure as he stepped down in 1999. Professional managers were brought in to head individual business units while family members moved to board positions on the MCB.

Corporate strategies of Murugappa Group centre around consolidating in core businesses with strategic thrust being on concentration, expansion through the means of technology upgradation, and global collaborations. During its 115 years history the Group has done around 40 acquisitions and joint ventures giving it ample expertise to manage the difficult task of merging entities and running partnerships. Yet, inherent weaknesses such as over reliance on old economy businesses such as sugar and inability to stake a timely claim in the emerging businesses such as telecommunications continue to haunt the Group.

In 2014, the Rs. 24,300-crore Murugappa Group is one of India's leading conglomerates with 28 businesses, including 11 listed companies deriving about half of its revenue from agri-based businesses. It operates in the seven core businesses of abrasives, bio-products, engineering, fertiliser, finance, plantations, and sanitary ware. The fourth generation is in command with the fifth generation being groomed to take over as family members are expected to retire at 65 years.

Murugappa group is one of the oldest family-run business houses in the world. The group has always maintained a low profile and somehow never felt the need to be visible as a group entity in India. This is typical of its humility despite being the only Indian company to win the international Institute for Management Development (IMD) award in 2001 for the 'best managed family-run business'. Its professionalisation as a family group has attracted attention internationally with Kellogg School of Management including a company case on the Murugappa Group in its family business programme.[39]

Questions

1. Trace the historical development of the Murugappa Group highlighting the major strategic changes at each point of transition of independence (1947), regulation era (1950–90) and post-liberalisation (1990s onwards). **(LO 1, LO 3)**
2. Point out, at least, three major factors that account for the success of the Murugappa Group. **(LO 3, LO 5)**
3. What could be the likely dangers ahead for the Murugappa Group in the highly liberalised and globalised business environment? **(LO 2, LO 5)**
4. What lessons do you learn about strategic management from this review case on Murugappa Group? **(LO 5)**

Notes and References

1. Bharti Airtel's company website at *http://www.airtel.in/about-bharti/*; "An earnest entrepreneur" at: *http://www.domain-b.com/companies/companies_b/bharti_tele-ventures/20041106_entrepreneur.html*;"Bharti Airtel: Strategy gone sour" at: *http://www.voicendata.com/voice-data/news/167843/bharti-airtel-strategy-gone-sour#sthash.XXXK58Km.dpuf*; "Bharti Airtel's overseas operations continue to struggle" at *http://www.business-standard.com/article/companies/bangladesh-goes-africa-way-for-bharti-airtel-114110400936_1.html*. All websites retrieved 19 November, 2014.
2. C.R. Christensen, K.R. Andrew, J.L. Bower, R.G. Hamermesh, and M.E. Porter, *Business Policy - Text and Cases*, 5th ed. (Homewood, III: Richard D. Irwin, 1982): Quoted from preface.
3. A. Gordon and J. E. Howell, *Higher Education for Business* (New York: Columbia University Press, 1959): 2006–07.
4. D. E. Schendel and C. W. Hofer, (eds) *Strategic Management*, (Boston, MA: Little Brown, 1979).
5. W.F. Glueck and L.R. Jauch, *Business Policy and Strategic Management*, 4th ed., (New York: McGraw-Hill, 1984): 4–5.
6. R. W. Oliver, "The Future of Strategy: Historic Prologue", *Journal of Business Strategy* (July-August 2002): 6–9.
7. A. Hofer, E.A. Murray Jr., Ram Charan, and R.A. Pitts, *Strategic Management - A Casebook in Policy and Planning*, 2nd ed., (Minnesota: West Publishing,1984): 8
8. A. Thompson, Jr. and A.J. Strickland III, *Strategic Management-Concepts and Cases*, 3rd ed., (Plano, Texas: Business Publication, 1984): Quoted from Preface.
9. A.N. Whitefield, *The Aims of Education and Other Essays*, (New York: American Library, 1963): 62.
10. C. Camerer, "Redirecting Research in Business Policy and Strategy," *Strategic Management Journal,* no. 6, (1985): 13.
11. H. Ansoff, *Implanting Strategic Management*, (Englewood Cliffs, New Jersey: Prentice-Hall, 1984): Quoted from Preface.
12. A. Toffler, *The Third Wave*, (New York: Bantam Books, 1980): 235.

13. A.S. Thomas, "The Business Policy Course: Multiple Methods for Multiple Goals," *Journal of Management Education*, (August 1998) 22, no. 4: 484–97.
14. R.P. Rumelt, D.E. Schendel, and D. J. Teece, *Fundamental Issues in Strategy: A Research Agenda*, (Boston, Mass.: Harvard Business School Press, 1994): 39–47.
15. M.A. Hitt, B.K. Boyd, and D. Li, "The State of Strategic Management Research and a Vision for the Future" in *Research Methodology in Strategy and Management*, Volume 1, ed. D. Ketchen and D. Bergh, (Oxford: Elsevier Press, 2004).
16. H.W. Volberda, "Crisis in Strategy: Fragmentation, Integration or Synthesis," *European Management Review*, 1, no. 1, (2004): 35–42.
17. J.H. Grant, "Advances and Challenges in Strategic Management", *International Journal of Business,* 12, no. 1 (2007): 11–31.
18. V. L. Mote, "Management Education in India - The Role of the Institutes of Management", *Vikalpa,* 10, no.4, (Oct-Dec. 1985): 371–85.
19. AICTE, *Norms and Standards for Management Education* (New Delhi: All India Council for Technical Education, 1990).
20. AICTE: *Norms and Standards* (New Delhi: All India Council for Technical Education, 1995).
21. AICTE: *Model Curriculum: Program Structure and Content of Post-graduate Diploma in Management* (New Delhi: All India Council for Technical Education, 2012). *http://www.aicte-india.org/downloads/Model_Curriculum_PGDM_060912.pdf* Retrieved 11 September, 2013.
22. AIMS, *A Standard Curriculum for Indian Management Schools* (Association of Indian Management Schools, 1989).
23. The All India Council for Technical Education brought out its model curriculum for PGDM programme on 9 January, 2012. It recommended 17 textbooks in strategic management for adoption. All these 17 textbooks are American. This is a clear indicator of the dependence on American sources for management education in India. See pages 86–7 here: *http://www.aicte-india.org/downloads/Model_Curriculum_PGDM_060912.pdf* Retrieved 6 December, 2013
24. C. Camerer, *op. cit.,* p.5. For those interested in advanced research in strategic management a look at the methodological issues is recommended. See *http://orm.sagepub.com/site/misc/VirtualIssues/StrategicManagement.xhtml.* Retrieved 4 November, 2014.
25. K.P.S. Murthy, *A Survey of Research in Business Policy, (1970-1982)*, (Ahmedabad: Indian Institute of Management, Feb. 1984), Working Paper No. 495, 22–3.
26. A. Ahmad and T. Agarwala: *A Decade of Management Research in India*, (Association of Indian Management Schools, 1994).
27. Mike Wright, Igor Filatotchev, Robert E. Hoskisson, and Mike WPeng, "Strategy Research in Emerging Economies: Challenging the Conventional Wisdom," *Journal of Management Studies* 42, no.1, (2005): 1–33.
28. Chung Ming Lau, "Achievements, Challenges and Research Agendas for Asian Management Research Studies" *Asian Business & Management*, 5, (2006): 53–66.
29. Strategic Management Forum of India was formed in 1996 and is now actively engaged in promoting the cause of strategic management in India. Its membership is open to academicians, managers, and administrators having demonstrated interest in strategic management. Business organisations and academic institutions engaged in teaching/training of strategic management can become institutional members. Its website is: *http://www.smfi.org/* Retrieved 6 September, 2014.
30. Strategic Management Society is a global organisation of strategy scholars. See: *http://india.strategicmanagement.net/* Retrieved 6 December, 2013.
31. Differing viewpoints of the concept of strategy are based on definitions in A. Chandler, *Strategy and Structure—Chapters in the History of the American Enterprise*, (Cambridge, Mass: M.I.T. Press, 1962):13; K.R. Andrews, *The Concept of Corporate Strategy*, (Homewood, Ill: Jones Irwin, 1973):28; H.I. Ansoff, *Corporate Strategy*, (New York: McGraw-Hill, 1965); W.F. Glueck, *Business Policy - Strategy Formation and Management Action*, (New York: McGraw-Hill,1976); H. Mintzberg, "Crafting Strategy" in *Harvard Business Review* 65, no. 4, (July-August 1987): 66–75; M.E. Porter " What is Strategy" in *Harvard Business Review* (Nov- Dec 1996):. 61–78; H. I. Ansoff, *Implanting Strategic Management*, (London: Prentice-Hall International, 1984): 31; and M. Farjoun, "Towards an Organic Perspective on Strategy," *Strategic Management Journal*. Chichester, 23, no. 7, (July 2002): 561–94.
32. A. Sharplin, *Strategic Management* (New York: McGraw-Hill, 1985): 6.
33. Ansoff, *op.cit.* 1984, 38.

34. Information about Panacea Biotec from its corporate profile on website: *http://www.panacea-biotec.com/profile-bttm.htm* Retrieved 28 December, 2006.
35. Information about Bajaj Electricals from company website: *http://www.bajajelectricals.com/* Retrieved 28 December, 2006 and "Bajaj Electricals plans SBUs for brand strength" *domain-b.com* 4 September, 2002 *www.domain-b.com* Retrieved 29 December, 2006.
36. Astra Poly to make US company's product in India *Business Line*, 14 December, 2006.
37. H. Mintzberg: "The Brain: Planning Left, Managing Right" *Harvard Business Review*, 50, no. 4 (1976).
38. Section 1.5 draws heavily from H. Mintzberg, B. Ahlstrand and J. Lampel, *Strategy Safari: A Guided Tour Through the Wilds of Strategic Management*, (New York: The Free Press, 1998)
39. Speech in honour of the Murugappa Group, India by Thierry Lombard at the 12th Annual World Conference, Rome, 5 October , 2001 available at *http://www.murugappa.com/0_about_us/downloads/IMDLecture.pdf*, Retrieved 25 February, 2007; "The Murugappa Group: Centuries-Old Business Heritage and Tradition" Case Number: 5-104-011, Kellogg School of Management, 2004; K. Ramachandran: *Indian Family Businesses: Their Survival Beyond Three Generations* Working Paper, (Hyderabad: Indian School of Business, 2005); "Murugappa Group Aims to Strengthen Global Presence" in *Business Standard*, 3 May, 2006; "Murugappa Group to Tap Avenues in Sunrise Sectors" in *Business Line* 25 November, 2006; "Murugappa Group: From Burma to Parry's Corner" in Live Mint, 19 August, 2014; Murugappa Group website at *http://www.murugappa.com/companies/*; Retrieved 20 November, 2014.

2

CHAPTER

Hierarchy of Strategic Intent

Learning Objectives

After reading this chapter you should be able to:

LO 1 Explain the concepts of strategic intent, stretch, leverage, and fit.
LO 2 Describe vision and differentiate between the concepts of vision and mission.
LO 3 Define mission, and discuss mission statement its characteristics, formulation and communication
LO 4 Explain the three dimensions of business definition.
LO 5 Comprehend business models and their relationship with strategy.
LO 6 Describe the role and characteristics of objectives and objective-setting

Chapter Outline

Preview Case

PUTTING TOGETHER THE STRATEGIC INTENT AT DABUR INDIA LIMITED*

Cholera, malaria, and plague have been killer diseases in India. In 1884, Dr. S.K. Burman embarked on a mission to provide nature-based, effective, and affordable treatment for these killer diseases for ordinary people in far-flung villages of Bengal. He adopted Ayurveda, the traditional Indian system of medicine. Dr. Burman established a pharmacy that set up a manufacturing plant in 1896 and research laboratories in 1919. The pharmacy became a full-fledged private company in 1936, and 50 years later, in 1986, it became a public limited company. He came to be known as *Daktar* (Indian pronunciation of 'doctor') Burman. The organisation he founded came to be known as Dabur.

Dabur is a leading consumer goods company in India having two subsidiary companies and 30 manufacturing plants of which 10 are outside India. It operates in nearly 60 countries making it an Indian multinational company. In 2012, the company crossed US$1 billion revenue. Within the company, there are four strategic business units (SBUs): Consumer Care Division (CCD), Consumer Healthcare Division (CHD), International Business Division (IBD), and Dabur Foods. Consumer Care Division deals with personal care and home care businesses and CHD deals with health care business. International Business Division manages personal and health care products in international markets. Foods division deals with fruit-based beverages and culinary pastes businesses. It markets its products through an extensive wholesale and retail network of agents, distributors and retail outlets, and through digital portals.

The vision of Dabur is stated as: 'Dedicated to the health and well being of every household.' There is no specifically-stated mission statement but a statement of strategic intent where the company expresses its aim to accelerate profitable growth through tasks is mentioned as follows:

- Focus on growing core brands across categories and across domestic and international markets
- Improve operational efficiencies by leveraging technology
- Be the preferred company to satisfy, health, and personal care needs of consumers with products by synthesising Ayurveda and science
- Become a global ayurvedic leader
- Be a professionally managed employer of choice, attracting, developing, and retaining quality personnel
- Exhibit responsible citizenship with a commitment to environmental protection
- Provide superior returns, relative to peer group, to shareholders

There are six core values that Dabur practices: ownership, passion for winning, people development, consumer focus, team work, and innovation. Its corporate positioning statement is 'celebrate life' that goes with its bright green and brown coloured logo depicting a banyan tree.

The brand name 'Dabur' is claimed to mean different things to different people. It operates at three distinct levels: as the company's corporate brand identity, the mother brand for a whole range of products, and also percolates down to individual product names.

The family-owned organisation started to change to a professionally managed one in the mid-1990s. It adopted professional management and strategic planning by withdrawing family members from operational management and putting place a succession plan. The organisation engaged McKinsey & Company to help it devise a strategic plan; later, it worked with Accenture which helped in formal strategic planning. The parties involved are board of directors, executive committee, and the consultant. The family council meets every quarter to discuss long-term vision and broader strategic issues.

Dabur follows a four-year time horizon strategic planning. The 2010-14 strategic plan ended with Dabur becoming a Rs. 7,000 crore-company.

The business model of Dabur is based on pushing through high growth parameters. The strategies adopted are a combination of internal growth and external growth through acquisition that it terms as organic and inorganic growth respectively.

Dabur has tried to alter the product concept of Ayurveda medicines as consumer products sold over the counter. For instance, it changed the product concept of *chyavanprash* from being a traditional compound of herbs and plant extracts having anti-oxidant properties to a branded consumer product sold over the counter for general health upkeep of the whole family. Honey is sold as food rather than a medicinal ingredient.

Generally, Dabur has performed well except in cases where it had to deal with tough competition in the intensely competitive consumer goods in India. Analysts say that the company has perhaps been eyeing too many divergent new product categories over the years. Rising commodity costs for its product manufacturing are also a big challenge.

Dabur's strategy for the next few years seems to be: growth through domestic and international acquisitions, launching new products, and penetrating deeper into rural Indian markets. At the business level, it generally adopts focused differentiation. In the near future, Dabur will have to decide whether it wishes to be a pure herbal brand or a leading fast moving consumer goods (FMCG) player neither of which it can claim to be with conviction today.[1]

Like individuals, organisations also have their dreams and aspirations that they desire to attain. There are so many different ways that organisations such as Dabur express their aspirations to be achieved in the future through their vision, mission and values, through defining their business, and setting their business model. Central to achieving their aspiration is setting of goals and objectives. Dabur sets its vision and formulates its strategic plan to achieve that vision. In the process, a family-owned company transforms to a professionally-managed organisation. Strategic intent is the term we choose here to express the aspirations of organisations. As you will soon read, there is an elaborate hierarchy of strategic intent having many levels at which organisations state what they wish to achieve.

2.1 STRATEGIC INTENT

LO 1

By strategic intent we refer to the purposes the organisation strives for. These may be expressed in terms of a hierarchy of strategic intent. Broadly stated, these could be in the form of vision and mission statements for the organisation as a corporate whole. At the business level of firms these could be expressed as the business definition and business model. When stated in precise terms, as an expression of aims to be achieved operationally, these may be the goals and objectives. Here we take the position that strategic intent lays down the framework within which firms would operate, adopt a predetermined direction, and attempt to achieve their goal. But the term 'strategic intent' has a definite meaning in strategic management. Let us first see the meaning and some associated concepts before we learn about the different constituents of hierarchy of strategic intent.

Understanding Strategic Intent

Hamel and Prahalad coined the term 'strategic intent' which they believe is an obsession with an organisation—an obsession by having ambitions that may even be out of proportion to their resources and capabilities. This obsession is to win at all levels of the organisation while sustaining that obsession in the quest for global leadership. They explain the term 'strategic intent' like this: 'On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress.... At the same time, strategic intent is more than simply unfettered ambition.... The concept also encompasses an active management process that includes: focusing the organization's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations.'[2]

Hamel and Prahalad quote several examples of global firms, almost all of American and Japanese origin, to support their view. In fact, the concept of strategic intent—as evident from their path-breaking article published in 1989, in the *Harvard Business Review*— seems to have been proposed by them to explain the lead taken by the Japanese firms over their American and European counterparts. Yet, strategic intent has wider implications and carries a lot of meaning for strategic management of firms. There is merit in their view as business groups and companies, which have aspired for global leadership, can be found in India too.

India has had an impressive list of business visionaries in the family-business sector that include J.R.D. Tata, A.V. Birla, N.R. Narayana Murthy, H.P. Nanda, Keshub Mahindra, Azim Premji, and many others. *Business Today*, in a 1998 survey of 50 family business houses, ranked highly the B.K. - K.M. Birla group, Lalbhai group, Essar group of Ruias, Hero group of Munjals, Ranbaxy, and Reliance group of Ambanis (before it split into the Mukesh and Anil Ambani groups) on the criterion of strategic intent. These groups were considered to be globally competitive, global/local players. For instance, the late Dhirubhai Ambani of the Reliance group is credited with having a strategic intent of making his group a global leader in its field of activity by being the lowest-cost producer of polyester products—a status achieved by relentless pursuit of scale, vertical integration, and operational effectiveness. Likewise, the late Parvinder Singh of the Ranbaxy group is considered as a visionary industry leader who worked hard towards the creation of a globally competitive, research-based pharmaceutical giant.[3]

It is not as if only the family business groups headed by entrepreneurs exhibit a high propensity for strategic intent. The professionally-managed and multinational subsidiary sectors too have their obsessions. Imperial Tobacco Company's (ITC's) strategic intent is 'to secure long-term growth by synergising and blending the diverse pool of competencies residing in its various businesses to exploit emerging opportunities in the FMCG sector.' DTDC—the express delivery company—while aiming to consolidate its current position wishes to introduce new services and products relevant to the needs of their consumers. The company is not satisfied with just being the largest delivery network in the country but aims to triple the network within India.[4]

Overall, strategic intent points to what a firm should set out to achieve. The understanding of strategic intent is aided by three important concepts that are described as under..

Concepts of Stretch, Leverage, and Fit

Subsequent to the idea of strategic intent, Hamel and Prahalad added the dual concepts of 'stretch' and 'leverage'. Stretch is 'a misfit between resources and aspirations'.[5] Leverage refers to concentrating, accumulating, complementing, conserving, and recovering resources in such a manner that the meagre resource base is stretched to meet the aspirations that an organisation dares to have. The idea of stretch is diametrically opposite to the idea of 'fit' that means positioning the firm by matching its organisational resources to its environment.

The strategic fit is central to the strategy school of positioning (see Chapter 1 for an explanation of the different schools of thought on strategy) where techniques such as SWOT analysis are used to assess organisational capabilities and environmental opportunities. Strategy then becomes a compromise between what the environment has to offer in terms of opportunities and the counteroffer that the organisation makes in the form of its capabilities. The ideas of stretch and leverage belong appropriately to the learning school of strategy where the capabilities are not seen as constraints to achieving and the environment is perceived not as something which is considered as given but as something which can be created and moulded. You would appreciate that the idea of strategic intent could work in both the cases though it might be perceptively different in terms of the levels at which aspirations are set. Under fit, the strategic intent would seem to be more realistic; under stretch and leverage it could be idealistic. Yet, in both the cases it is essentially a desired aim to be achieved.

Exhibit 2.1 presents information related to Tata Steel's strategic intent. Note how the company lays down different elements of its strategic intent in terms of its vision, mission, and strategic goals leading to the strategies the organisation plans to adopt.

Exhibit 2.1 The Strategic Intent of Tata Steel

The Tata Group is known for its ethos of aligning business opportunities with nation building. One of the India's most reputed companies from the Tata Group which was set up in 1907, Tata Steel is Asia's first and India's largest private sector steel company. Tata Steel is among the lowest cost producers of steel in the world. Its strategic intent is expressed in terms of a hierarchy of vision, mission, strategic goals, and strategies. It also explicitly states its corporate governance philosophy and measures to ensure business ethics.

Vision

'We aspire to be the global steel industry benchmark for value creation and corporate citizenship.'

Mission

Tata Steel does not explicitly mention a mission statement but expresses that it would strive to make a difference through the actions mentioned as under.

- By fostering teamwork, nurturing talent, enhancing leadership capability and acting with pace, pride, and passion through people.
- By becoming the supplier of choice, delivering premium products and services, and creating value for customers.
- By adopting an innovative approach to developing leading edge solutions in technology, processes, and products.
- By providing a safe workplace, respecting the environment, caring for communities, and demonstrating high ethical standards.

Strategic Goals

- Responding to changing customer demands and expectation
- Strengthening supply chain and logistics
- Innovating and developing new products
- Process improvements through shorter lead-times
- Excelling at customer services and proactive market development
- Improving operational effectiveness
- Focusing on sustainability, corporate social responsibility, and health and safety

Growth Strategy

- Building long-term value
- Expanding capacity
- Enhancing product quality
- Working closely with customers
- Differentiating through product innovation

Tata Steel stresses on adoption the 'best practices' in the area of corporate governance through emphasising the need for full transparency and accountability in all its transactions, in order to protect the interests of its stakeholders and to act as a trustee of its shareholders. It brings out an annual corporate governance report.

Tata Steel sets itself a high standard of ethical conduct. It adopts five core values of integrity, understanding, excellence, unity, and responsibility. Business ethos is promoted through the four pillars of leadership, communication and awareness, evaluation of effectiveness, and compliance structure. It adopts the Tata Code of Conduct in its operations. The company has a corporate ethics department responsible for the management of business ethics. It also involves other social agencies in its agenda of common good.

Source: Adapted from information on website of Tata Steel at: *http://www.tatasteel.com/*; Annual Report 2013-14 available at http://www.tatasteel.com/investors/annual-report-2013-14/annual-report-2013-14.pdf; Corporate governance report available at http://www.tatasteel.com/investors/pdf/corporate-governance-report.pdf; Tata Code of Conduct, 2013 available at http://www.tatasteel.com/corporate/pdf/TCOC.pdf. All websites retrieved 22 November, 2014.

Reiterating the position that we took in the beginning of this chapter, we consider strategic intent in a broader sense as a hierarchy of intentions ranging from a broad vision through mission and business definition down to specific objectives and goals. Vision is at the top level of the hierarchy of strategic intent and that is what we try to understand in the next section.

2.2 VISION

LO 2

Aspirations, expressed as strategic intent, should lead to tangible results otherwise they would just be castles in the air. Those results are the realisation of the vision of an organisation or an individual. It is ultimately what the firm or a person would like to become. For instance, some of you, say in 10 years or may be even earlier, would like to become general managers managing an SBU in a large, diversified multinational corporation. Or, some others among you would like to believe that you can be an entrepreneur owning your own company in 10 to 15 years dealing with IT services and employing cutting-edge technology to serve a global clientele. A firm thinks like that too. Vision, therefore, articulates the position that a firm would like to attain in distant future. Seen from this perspective, the vision encapsulates the basic strategic intent.

The Nature of Vision

Vision is dreamt of more than it is articulated. This is the reason why it is difficult to say what vision an organisation has unless it is stated explicitly. Sometimes it is not even evident to the entrepreneur who usually thinks of the vision. By nature, it could be hazy and vague just like the dream that one experienced the previous night and is not able to recall perfectly in broad daylight. Yet it is a powerful motivator to action. Often, it is from the actions that vision could be derived. Jamshetji Tata dreamt of a self-reliant India in steel making. Narayana Murthy possibly wanted to demonstrate that running a business is legally and ethically possible in India through entrepreneurship. Eiji Toyoda relentlessly focused on product and production. Henry Ford wished to democratise the automobile when he visualised that an affordable vehicle must be available for the masses. Walt Disney probably wanted to make people happy. All these visionaries had a vision that might have been only clear as they took actions to materialise their dreams. Exhibit 2.2 tells us what a vision should be and what it should not be.

Exhibit 2.2 What a Vision should be and should not be

A vision should be:	A vision should be
✓ An organisational charter of core values and principles	× A 'high concept' statement, motto or literature or an advertising slogan
✓ The ultimate source of priorities, plans, and goals	× A strategy or plan and a view from the top
✓ A puller (not pusher) into the future	× A history of proud past
✓ A determination and publication of what makes a person unique	× A 'soft' business issue
✓ A declaration of independence	× Passionless

Source: Adapted from Lucas, J. R. Anatomy of a vision statement *Management Review,* 87, no. 2 (1998): 22–26.

Defining Vision

Vision has been defined in several different ways. Kotter (1990) defines it as a 'description of something (an organization, a corporate culture, a business, a technology, an activity) in the future'.[6] El-Namaki (1992) considers it as a 'mental perception of the kind of environment an individual, or an organization, aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception'.[7] Miller and Dess (1996) view it simply as the 'category of intentions that are broad, all-inclusive, and forward thinking'.[8] The common strand of thought evident in these definitions, and several others available in strategic management literature, relates to vision being future aspirations that lead to an inspiration to be the best in one's field of activity.

The Benefits of having a Vision

Parikh and Neubauer (1993) point out the several benefits accruing to an organisation having a vision.[9] According to them:

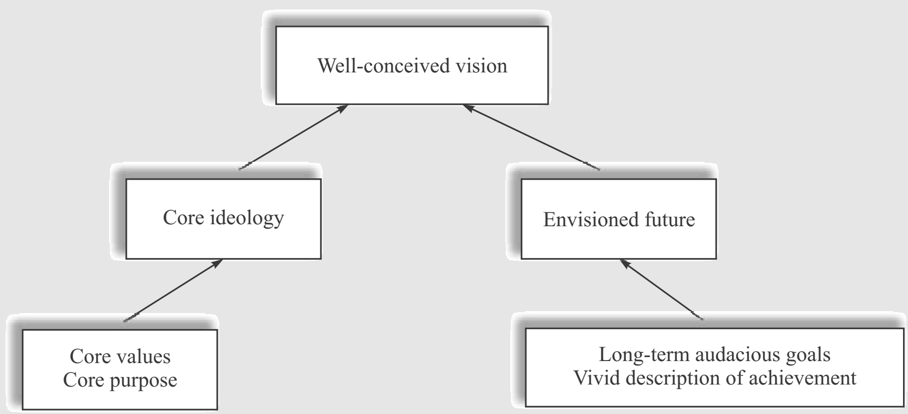
- Good visions are inspiring and exhilarating.
- Visions represent a discontinuity, a step function, and a jump ahead so that the company knows what it is to be.
- Good visions help in the creation of a common identity and a shared sense of purpose.
- Good visions are competitive, original, and unique.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

Next we learn about envisioning—the process of creating a vision.

The Process of Envisioning

The process of envisioning is a difficult one as we see from what Collins and Porras (1996) have to say about it.[10] According to them, a well-conceived vision consists of two major components: core ideology and envisioned future. The core ideology defines the enduring character of an organisation that remains unchangeable as it passes through the vicissitudes of vectors such as technology, competition, or management fads. The core ideology rests on the core values (the essential and enduring tenets of an organisation) and core purposes (an organisation's reason for being). The envisioned future too consists of two components: a 10 to 30 years audacious goal and vivid description of what it will be like to achieve that goal. The process of envisioning is shown in Exhibit 2.3. Many organisations mention terms such as corporate philosophy, corporate values, and the like that are used to convey what they stand for and what principles guide them in strategic and day-to-day decision-making. These terms are all part of an effort to state what the organisation's vision is.

Exhibit 2.3 The Process of Envisioning



Source: Adapted from J. Parikh and F. Neubauer: "Corporate Visioning" in *International Review of Strategic Management*, vol. 4, ed. D.E. Hussey (West Sussex, England: John Wiley & Sons, 1993): 109–111.

From vision, we now move on to the second level of strategic intent that is the mission.

2.3 MISSION

LO 3

While the essence of vision is a forward-looking view of what an organisation wishes to become, mission is what an organisation is and why it exists.

Several years ago Peter F. Drucker raised important philosophical questions related to business: What is our business? What it will be? and What should it be ?[11] These three questions though simply worded, are, in reality, the most fundamental questions that any organisation can put to itself. The answers are based on the analysis of the underlying need of the society that any organisation serves to fulfil. The satisfaction of that need is, then, the business of the organisation.

Since 2000, Boston-based Bain and company conducts global surveys for the most used management tools and techniques. Their surveys reveal that mission and vision statements are among the ten most popular management tools used by companies.[12] The trend of defining a mission statement has become quite popular in India too. *Business Today* reported the All India Management Association (AIMA) study of 1998 stating that 72 per cent of the total 160 companies surveyed had a written mission statement. Among these, 91 per cent were giant companies, 78 per cent were large, 83 per cent were medium-sized, and 55 per cent were small companies.[13] Verma, in 2004, found 143 of the 200 most valuable Indian companies using formal mission and vision statements.[14]

Understanding Mission

Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission. Mission is a statement which defines the role that an organisation plays in the society. It refers to particular needs of the society, for instance, its information needs. A book publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner. Both have different objectives but an identical mission.

Defining Mission

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose of existence of an organisation.

Thompson (1997) defines mission as 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'. Hunger and Wheelen (1999) say that mission is the 'purpose or reason for the organization's existence'.[16]

At present there is not much difference of opinion about the definition of mission. Yet, one finds instances of organisations confusing mission with vision or objectives. In strategic management literature, mission occupies a definite place as a part of strategic intent.

How are Mission Statements Formulated and Communicated?

Most organisations derive their mission statements from a particular set of tasks they are called upon to perform in the light of their individual, national, or global priorities. Several public sector organisations, set up in India during the 1950s and 1960s, owe their existence to the vision of Jawaharlal Nehru, the first prime minister, who enunciated and tirelessly worked for the national aim of building a strong and self-reliant India by laying the foundations of many of our basic infrastructural industries. The vision of Nehru led many of these public sector organisations to set their mission. Whether derived from set priorities or not, mission statements could be formulated either formally or informally.

Usually, entrepreneurs lay down the corporate philosophy which the organisation follows in its strategic and operational activities. Such a philosophy may not be consciously and formally stated but may gradually evolve due to the entrepreneur's actions. Generally an entrepreneur has a perception of the type of organisation that he wants his company to be. Mission statements could be formulated on the basis of the vision that the entrepreneur decides in the initial stages of an organisation's growth.

Major strategists could also contribute to the development of a mission statement. They do this informally by lending a hand in the creation of a particular corporate identity or formally through discussions and the writing down of a mission statement. Chief executives play a major role in formulating a mission statement both formally and informally. They may set up executive committees to formally discuss and decide on a mission statement or enunciate a corporate philosophy to be followed for strategic management. Consultants may also be called upon to make an in-depth analysis of the organisation to suggest an appropriate mission statement. B.N. Sinha, managing director of the Scientific Instrument Company Ltd., who took the help of a management consultant in deciding his company's mission and purpose, describes the process of formulating a mission: "...as a starting point, we (i.e. the company managers, consultant, and the chief executive) spent quite a bit of time on identifying our 'mission' of business.... After a lot of discussion, we identified our mission as follows: to be a vibrant organisation set on contributing to the scientific and technical progress of the country; keeping its customers and employees satisfied in terms of service and work reward; giving adequate returns on investment to the shareholders."[17]

A team of managers and consultants report on the process of articulating vision, mission, and values at ACG Worldwide, a 50-year old medium-sized company engaged in the pharmaceutical industry in India. They used the process of appreciative inquiry through storytelling by a large number of company employees to share their achievements, enthusiasm, and appreciation. The themes that emerged from these stories were then identified and analysed to design the vision, mission, and values statements.[18]

Here are a few more examples of how organisations formulated and communicated their mission statement.[19]

- *Eicher Consultancy*: It was formed in 1991 with a mission statement. It decided to have an ambitious statement directly addressed to the well-being of the country.
- *HCL*: The environment for computer companies became quite competitive by 1991. A need was felt to provide a feeling of oneness in organisation. A core management team assessed the internal strengths and designed a customer-centric mission statement for team building, mutual trust, internal customer-server equations, and empowerment.
- *Marico Industries*: Its first mission statement was designed in 1990 triggered by divestment of its consumer division. It wanted to be seen as a multiproduct, consumer-oriented company. It took about 7 months to evolve a common, shared purpose. The chief executive officer (CEO) outlined the goals and aspirations after hectic consultations with senior management. A three-day workshop of managers prepared a four-page mission statement. A need was felt in 1995 to rewrite the mission statement in the light of changed circumstances.
- *Ranbaxy Laboratories*: The company realised that competition in pharmaceuticals industry was becoming tough and it could not survive just by selling generic drugs. The CEO enunciated the mission and values in 1993, after a year of deliberations on future directions, strategies involved, and past experiences. Later measures were taken to communicate it extensively throughout the company down to the level of workers.
- *Unit Trust of India (UTI)*: An extensive corporate planning exercise was undertaken in 1992. UTI's mission statement was formulated as a part of that exercise.

Communicating the mission statement is as important as formulating it well. This is so since a positive relationship exists between the performance of a company and the number of methods used to communicate and disseminate a mission statement.[20] High visibility with the mission statements posted on multiple locations is an effective tactic to aid mission familiarity and recognition by employees. There are several methods to communicate the mission statement within the organisations[21] such as annual reports, posters/plaques, employee manuals, company information kits, word-of-mouth publicity, seminars and workshops, newsletters, and advertisements. Company websites are also used as a medium for communicating the vision and mission to stakeholders.[22]

A mission statement, once formulated and communicated, should serve the organisation for many years. But a mission may become unclear as the organisation grows and adds new products, market, and technologies to it activities. Then the mission has to be reconsidered and re-examined to either change or discard it and evolve a fresh statement of organisational mission. An assessment of how effective a mission statement is can be done by checking out its characteristics.

Characteristics of a Mission Statement

Organisations legitimise themselves by performing some function that is valued by the society. A mission statement defines the basic reason for the existence of the organisation. Such a statement reflects the corporate philosophy, identity, character, and image of an organisation. It may be defined explicitly or could be deduced from the management's actions, decisions, or the chief executive's press statements. When explicitly defined it provides enlightenment to the insiders and outsiders of what the organisation stands for. In order to be effective, a mission statement should possess the following seven 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. In the 1960s, the US National Aeronautics and Space Administration (NASA) had a mission—to land on the moon. It was a feasible mission that was ultimately realised.

2. It should be Precise A mission statement should not be so narrow as to restrict the organisation's activities nor should it be too broad to make itself meaningless. 'Manufacturing bicycles' is a narrow mission since it severely limits the organisation's activities while 'mobility business' is too broad a term as it does not define the reasonable contour within which an organisation could operate. Observe how Hero Cycles defines its mission: 'It's our mission to strive for synergy between technology, systems and human resources, to produce products and services that meet the quality, performance, and price aspirations of our customers. While doing so, we maintain the highest standards of ethics and societal responsibilities.'

3. It should be clear A mission should be clear enough to lead to action. It should not just be a high-sounding set of platitudes meant for publicity purposes. Many organisations do adopt such statements (sometimes referred to as the corporate positioning statement) but probably they do so for emphasising their identity and character. For example, *India Today* saw itself as 'the complete news magazine' and now visualises its mission as 'making sense of India.' The Administrative Staff College of India considers itself as 'the college for practising managers'. Better still is the Hindustan Unilever Limited's (HUL's) mission to 'add vitality to life' leading to various strategic actions of being the largest consumer goods company in India.

4. It should be Motivating A mission statement should be motivating for members of the organisations and of the society, and they should feel it worthwhile working for such an organisation or being its customers. A bank which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients. Customer service, therefore, is an important purpose for a banking institution. Yes Bank's strategic vision, 2015, includes the mission of 'to establish a high quality, customer centric, service driven, private Indian bank catering to the future businesses of India'.

5. It should be Distinctive A mission statement which is indiscriminate is likely to have little impact. If all two-wheeler manufacturers defined their mission in a similar fashion, there would not be much of a difference among them. But if one defines it as providing two-wheelers that would provide value for money, for years it creates an important distinction in the public mind. Bajaj Auto adopted its popular mission of providing 'value for money, for years' going over to 'inspiring confidence' and now being 'distinctly ahead'.

6. It should Indicate Major Components of Strategy A mission statement, along with the organisational purpose should indicate the major components of the strategy to be adopted. The mission of HCL Infosystems is: 'We enable business transformation and enrichment of lives by delivering sustainable world class technology products, solutions, and services in our chosen markets thereby creating superior shareholder value.' It provides a clear indication of the emphasis in the strategies of the company on technology, products, solutions, services, and shareholder value while being sustainable.

7. It should Indicate how Objectives are to be Accomplished Besides indicating the broad strategies to be adopted a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished. Oxfam India, in the voluntary sector, seeks to achieve its mission through the empowerment of the poor and marginalised to demand their rights, engagement of the non-poor to become active and supportive citizens, advocating for an effective and accountable state, and making markets work for poor and marginalised people.

In day-to-day decision-making, managers are not concerned about survival and, therefore, do not actively think about their organisation's mission for society. Thus, a mission statement becomes an ideology that is occasionally used for legitimisation. But for strategic decision-making, it is important to consider the mission in each phase of the strategic management process.

A helpful approach to defining as well as refining a mission statement is to define the business itself.

2.4 BUSINESS DEFINITION

LO 4

Understanding business is vital to defining it and answering the question: What is our business? It could also be a pointer to answers to the questions: What will it be? and What should it be? Vision and mission statements can use the ideas generated through the process of understanding and defining business.

Defining Business

The wrist watch has traditionally been considered to have just one function—to display the time. Over time the wrist watch has become a fashion accessory, which might also mean that you need to have more than one watch. It is a reflection of one's personality and status; it makes a statement. High-value, rare watches could also be pieces of art, collector items and antiques of value. Exhibit 2.4 illustrates the many options available to a company in the timekeeping business.

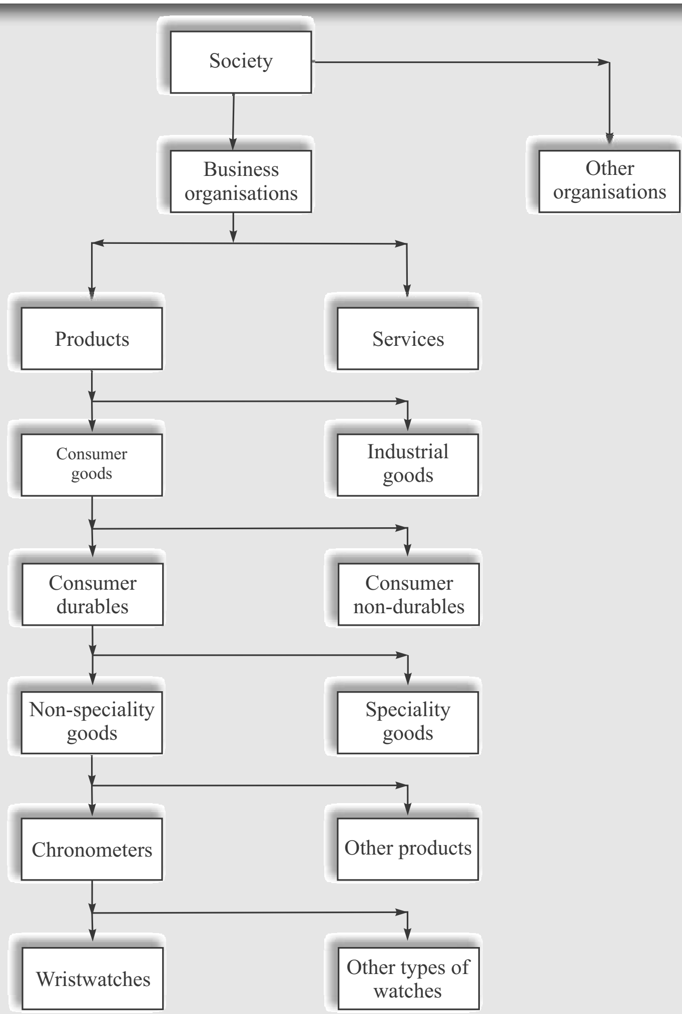
Exhibit 2.4 Understanding the Business of Timekeeping

An illustrative diagram, like the one shown here, can be helpful in understanding business. In this diagram, we have attempted to relate societal needs to the business of timekeeping.

Each successive step provides alternative ways through which the timekeeping needs of the society could be satisfied. Consider the following illustrative examples:

- Wristwatches could be of different types, e.g. ladies, men, children, and sports watches. Ladies wristwatches could be either utility or ornamental watches.
- Other type of watches could be time pieces, wall clocks, and pocket watches.
- Other products could be an hourglass or a sundial.
- Specialty watches could be video timers, calculator watches, and car clocks.
- Consumer non-durables could be time-punching machines and stop watches.
- Services could be telephone or teletext time services.
- Other organisations which roughly meet the timekeeping needs could be for instance, a church bell chiming at appointed hours or a call to the faithful from mosques.

All these options—or their combinations—lead to the satisfaction of the timekeeping needs of the society. Four other variables are useful in understanding the business of timekeeping. These are:



1. Functions which watches can perform such as providing the time, day, date, and direction.
2. Customer needs satisfied by actions like finding time, recording time, using watches as fashionable accessories, and presenting them as a gift items.
3. End usages like direct use by customers and indirect use, as sub-assemblies in the form of watch and clock movements, by industry.
4. Technology used based on mechanical, quartz digital, or quartz analog manufacturing.

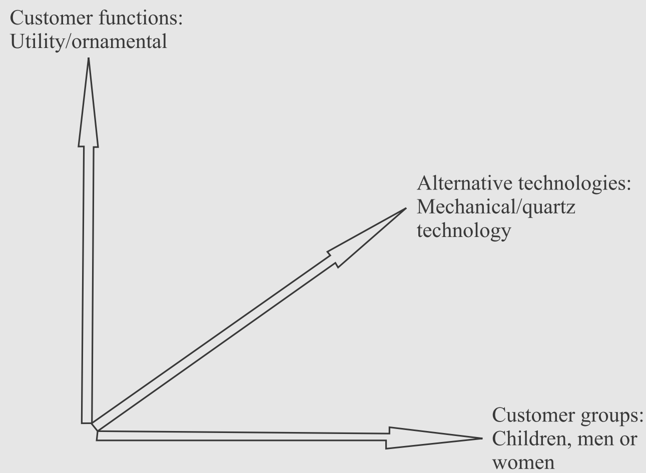
These four options and variables are, however, relevant to the current 'state of the art'. Timekeeping business could radically change if a breakthrough occurs any time in future. For instance, if it could somehow be possible to embed sensors in the human brain that enable a person to just *know and feel* the time rather than *finding time by looking* at a watch, timekeeping could become just another neurological function. The implications of such a breakthrough for society and business are exciting. Naming just two, we could say that visually-challenged persons could benefit a lot by such a technological advancement, and the business of timekeeping would never be the same: all timekeeping equipment that we use today could face the risk of becoming redundant. The business of timekeeping, is therefore, certainly not making more, better, sophisticated and a variety of watches but providing the means—whatever they might be—to simply know the time.

Drawing an example from Exhibit 2.4 it can be said a particular company providing only ladies wrist-watches of utility and ornamental types using the quartz analogue technology could define its business in one way. Another company, a government supplier, may choose to make mechanical wall clocks. Both the companies are in the timekeeping business but they cater to different customer groups, provide different customer functions, and use alternative technologies.

Dimensions of Business Definition

Derek Abell, in a path breaking analysis, suggests defining business along the three dimensions of customer groups, customer functions, and alternative technologies. Customer groups are created according to the identity of customers and relate to 'who' is being satisfied. Customer functions are based on what the products or services provide for the customers and answer 'what' is being satisfied. Alternative technologies describe the manner in which a particular function can be performed for a customer and describes 'how' the need is being satisfied.[23] Exhibit 2.5 presents a diagrammatic view of these three dimensions.

Exhibit 2.5 Abell's Three Dimensions for Defining the Business of a Watch Company



Source: Adapted from D.F. Abell: *Defining the Business: The Starting Point of Strategic Planning* (Englewood Cliffs, N.J. Prentice-Hall, 1980).

The 'what' of the business definition deals with the customer needs. The basic needs of food, clothing, and shelter are examples of customer needs. There could be higher-order needs of security, entertainment, gaining knowledge, education, or information, leisure, and gaining social status. Businesses aim at the satisfaction of these needs. Companies spend a considerable amount of time and resources to identify their customer needs. Products and services are then designed to satisfy these needs. A business earns its revenue from providing customer satisfaction through products and services. Going beyond the idea of customer satisfaction is the idea of customer delight that aims at providing even more value than what a customer would normally expect. Businesses seek to enhance their competitive advantage by providing customers value in the form of products and service.

The 'who' of the business definition refers to the customer groups targeted by a business. Customer groups are identified on the basis of the needs that they seek to satisfy. Popular bases for identifying customer groups are the demographic characteristics (age, gender, income, occupation, etc.), geographic segmentation (rural/

urban or Northern India/Southern India), or lifestyle (traditional/modern). Businesses continuously focus on the needs of the customer groups they identify for targeting.

The 'how' of the business definition refers to the alternative technologies used to provide the products and services that satisfy the perceived needs of the customer groups identified. The term alternative technology has a broader connotation and, besides the technical knowledge, refers to the skills or competencies businesses utilise to provide the products and services. The core competence of a business resides in its skills base and that is used to provide value to the customer.

Applying Abell's three-dimensional model to the illustration of timekeeping business, we could identify the three dimensions as follows:

1. Customers groups are individual customers and industrial users.
2. Customer functions are of finding time, recording time, using watches as a heart rate monitor, fashionable accessory, a gift item or a piece of art.
3. Alternative technologies are of the mechanical, quartz digital, and quartz analogue types.

Such a clarification helps in defining business explicitly. A clear business definition is helpful for strategic management in many ways. For instance, a business definition can indicate the choice of objectives, help in exercising a choice among different strategic alternatives, facilitate functional policy implementation, and suggest appropriate organisational structure. A ladies utility type watch manufacturer could extend the business definition along the customer dimension and make ornamental watches also. The manufacturer could also diversify further by moving into the manufacture of wall clocks. Having decided to manufacture ornamental ladies watches the manufacturer would have to effect changes in marketing and other functional policies. If utility watches were being made on a production-to-stock basis, ornamental watches may require a production-to-order system of manufacturing. Technological choice will vary from making mechanical hand-wound watches to make battery-operated quartz digital watches, which are two entirely different processes. We could, of course, go on pointing out various other implications of defining business along three dimensions. In sum, we observe that the model provides powerful insights into understanding and defining business.

Levels at which Business could be Defined

Like strategy, business could be defined at the corporate or SBU levels. A single-business firm is active in just one area so its business definition is simple. A large conglomerate, operating in several businesses, would have a separate business definition for each of its businesses. Rather, as Hill and Jones (1998) suggest, a diversified company's business is to manage a collection of businesses. The important question here is: How the corporate business adds value to the constituents businesses of that company?[24]

At the corporate level, the business definition will concern itself with the wider meaning of customer groups, customer functions, and alternative technologies. A highly diversified company organised on a divisional basis could benefit by having a business definition covering all the three dimensions. Each division could again have more accurate business definition at the SBU-level. For example, Voltas Ltd., a Tata group company operating in seven businesses organised into three clusters of electromechanical products and services; engineering products and services; and unitary cooling products, broadly performs the customer functions of trading and manufacturing a large variety of items from air-conditioning, refrigeration, and engineering products catering to two broad customer groups of individual and institutional customers and using diverse technologies for manufacturing a broad range of products from air conditioners to textile machinery.

When a company engages in activities outside the domain of the its business definition, it generally faces the accompanying risk of adding new businesses, divisions, or products unrelated to its present activities and at variance with its corporate identity. The crisis of identity is a serious problem which results either in inefficiency or ineffectiveness. On the other hand, if the various acquisition, growth, and diversification plans of a company are linked through a business definition, it results in considerable amount of synergy (more commonly known as 'the two plus two is equal to five effect'). One or more of the three dimensions of business definition could become the fulcrum for growth strategies. For instance, acquisition or diversification could be guided by whether the acquired or new entity fits into the overall business definition. The LG Electronics has tried to change its positioning over time. LG India was guided by the health platform in positioning its products—air conditioners that do not just cool but discharge fresh air, televisions screens that prevent eye strain or refrigerators that offer anti-bacterial benefits—in a tough and competitive fast moving consumer goods market. Health, for LG, is the customer function offered that is expressed in the slogan of 'Life's Good'. Along with the LG slogan, the company also planned to inject warmth into its marketing communication by focusing on the theme of 'It's all possible'. Similarly serving the same customer groups or capitalising on same technology could become the basis for future growth strategies. Thus, business definition offers unique insights into companies operating in competitive markets where the customer is an important external stakeholder of the firm.

The significance of Abell's approach to defining business lies in it being a marketing- and customer-oriented approach rather than a product-oriented approach. Yet, product-orientation is also important as we see next.

The Product/Service Concept

Like the business definition, an explicit product/service concept could have far reaching implications for strategic management. A product/service concept is the manner in which a company assesses the user's perception of its product or service. Such a perception is based on how the product or service provides functions that satisfy customer needs. Consider the examples given as under where companies define their product/service concepts and what implications such definitions have.

- Bhadrachalam Paperboards Ltd. recognised paper as a product and not as a commodity. As a result of this, it was able to consider the productivity of its customers and make tailor-made products for them. In the process, it came in direct contact with customers rather than the wholesale agents, thus defying the traditional way in which the paper business operates.
- HCL Ltd. perceived the computer not as a sophisticated awe-inspiring machine but as an everyday commodity. Such a product concept prompted it to advertise the computer as a consumer durable available through an innovative hire-purchase scheme.
- Motorola wished to make mobile phone not just a device for making a phone call but offering 'seamless mobility' making it possible to perform a variety of functions such as pay bills, unlock car, buy tickets, or use the mobile phone for personal identification.
- NIIT saw itself not as a computer training institution but as a service-providing organisation seeking to understand and implement the concept of knowledge transfer across the gamut of information-technology-led human activity.
- Pearl Polymers visualised using polyethylene terephthalate containers not just as an industrial product for storing edible oil but as containers for a modern kitchen creating a huge market for its Pearl Pet bottle and jars.

A product/service concept—carefully and innovatively defined—can prove to be of significant worth to strategists in different phases of strategic management. Mashelkar, former director general of the Council of Scientific and Industrial Research (CSIR) poses the question whether companies should be concerned about which markets should they enter with which products or whether what skills, capabilities, and technologies should they develop? In his view, the competitive advantage in high-technology business increasingly depends on underlying technical skills of the business rather than on particular products. Products are simply transient, intermediary mechanisms through which the markets derive value from the company and the company derives value from the market. As product life cycles become shorter in industry after industry, the skills life cycles become longer.[25] This is a subtle point and needs to be understood by strategic planners when they define the product/service concept.

An explicit business definition and product/service concept are powerful tools for strategic management. Another popular tool that has emerged is that of business model.

2.5 BUSINESS MODEL

LO 5

The Internet boom and bust of the 1990s revitalised the term 'business model'. Though not expressing a novel thought, it has become quite a popular term now and is used frequently to express a number of ideas among them—'creation and marketing of value' being the major theme. The success of Amazon.com as a virtual book seller, Dell Computers as an Internet-based marketer, Google as a search engine, Southwest Airlines as a low cost carrier or Wal-Mart as a retailer is attributed to their respective business models.

Colloquially, business model is often expressed in the form of a question: How does the organisation make money? E-newspapers are able to offer free Internet editions on account of the online advertisement revenue they earn from the advertisers. Budget airline share certain features such as e-ticketing, no-frills service, and uniformity in the types of planes used. A *kirana dukan* (provision store) owner buys commodities and products at a price and then, applying a mark-up, sells them at retail prices thus earning revenue and profit. Each of these organisations is using a particular business model.

Formally, a business model could be defined as 'a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network.'[26]

Business models have an intimate relationship with the strategy of an organisation. Strategies result in choices; a business model can be used to help analyse and communicate these strategic choices. Companies in the same industry, competing with each other, can rely on different models as a matter of strategic choice. Tata Consultancy Services (TCS) adopted a traditional fixed-price, fixed-time business model where payments by clients were based on time-related milestones. Infosys and Wipro had a time and material business model where clients paid on an ongoing basis depending on the amount of work done rather than time elapsed.[27] The use of business model innovations is, however, not limited to the information technology (IT) industry in India. As a study on business model innovation notes the trend has shifted to include consumer goods, financial services, pharmaceuticals, and travel industries. For instance, Jubilant Organsys adopted the model of conducting contract research within India as compared to the earlier traditional model in Indian pharmaceutical industry of using research done by the parent companies in Western countries.[28]

From the abstraction that strategies actually are, business models are down-to-earth prescriptions to implement the strategies. Strategies are not expected to answer the question how to make money? Business model can enable us to do precisely that.

Here are two examples to illustrate the concept of business model and its relations to an organisation's strategies.

Bharti Airtel's business strategy is to differentiate itself in India's highly competitive communications environment by ensuring customer delight through personalised customer service and accomplishing this through a highly cost-effective business model. It implemented this business model through a strategic alliance with Nortel India that hosts contact centre services for subscribers to Bharti's mobile services as well as the broadband and fixed-line service. By doing so, Bharti frees itself from the day-to-day responsibilities associated with operating, maintaining, and evolving its contact centre network to focus on its core business. Nortel earns revenue on a per call basis on a 'pay as you go' business model and forsees opportunities of offering contact centre services to other clients. Enhancing customer service thus becomes a value proposition that seeks to differentiate Bharti from other telecommunication service providers in the competitive Indian market.[29]

Aptech Limited, a global learning solutions company, has several corporate social responsibility projects among which is a multilingual basic IT literacy course called *Vidya* (meaning 'learning', in Hindi) under which it has trained over 5,00,000 students. The traditional model of a computer education and training institute was a company-owned centre with computer laboratories and classrooms that required substantial investments.

Aptech embarked on a franchise business model for the *Vidya* project. The transition from a company-owned centre model to a franchise model was driven by the need to avoid high capital investment and leverage the understanding of the market by the franchisee. Aptech maintained control over the franchises through contractual obligations and supervision. Internationally it has replicated the franchise model with country-level variations to suit the local requirements. Though the *Vidya* courses offer lower margin but they lead to higher revenues when students enrol in higher-level Aptech courses thus allowing it to expand rapidly than otherwise would have been possible.[30]

The vision, mission, business definition, product/service concept, and business model serve to determine the basic philosophy that is adopted by an organisation in the long-run. To realise its vision and mission and achieve its strategic intent, any organisation will have to set goals and objectives to be pursued in the medium and short run. The next section deals with objectives and goals.

2.6 GOALS AND OBJECTIVES

LO 6

Goals denote what an organisation hopes to accomplish in future. They represent the future state or outcome of effort put in now. A broad category of financial and non-financial issues are addressed by the goals that a firm sets.

Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals that are generalised. In this manner, objectives make the goals operational. While goals may be qualitative, objectives tend to be mainly quantitative in specification. This way they are measurable and comparable. This fine distinction between goals as broadly stated aims and the objectives as specifically stated aims is not necessarily maintained in practice by organisations. As students of strategic management, we should however understand the subtle difference between goals and objectives.

Exhibit 2.6 Objectives of Indian Oil Corporation

The Indian Oil Corporation (IOC) is India's largest company and the highest ranked Indian company among Fortune Global-500 companies. It has a long and varied set of objectives divided into what seem to be strategic objectives and financial objectives.

Strategic Objectives

- To serve the national interests in oil and related sectors in accordance and consistent with government policies.
- To ensure maintenance of continuous and smooth supplies of petroleum products by way of crude oil refining, transportation and marketing activities, and to provide appropriate assistance to consumers to conserve and use petroleum products efficiently.
- To enhance the country's self-sufficiency in oil refining and build expertise in laying of crude oil and petroleum product pipelines.
- To further enhance marketing infrastructure and reseller network for providing assured service to customers throughout the country.
- To create a strong research and development base in refinery processes, product formulations, pipeline transportation, and alternative fuels with a view to minimising/eliminating imports and to have next generation products.
- To optimise utilisation of refining capacity and maximise distillate yield and gross refining margin.
- To maximise utilisation of the existing facilities for improving efficiency and increasing productivity.
- To minimise fuel consumption and hydrocarbon loss in refineries and stock loss in marketing operations to effect energy conservation.
- To earn a reasonable rate of return on investment.
- To avail of all viable opportunities, both national and global, arising out of the Government of India's policy of liberalisation and reforms.

- To achieve higher growth through mergers, acquisitions, integration, and diversification by harnessing new business opportunities in oil exploration and production, petrochemicals, natural gas, and downstream opportunities overseas.
- To inculcate strong 'core values' among the employees and continuously update skill sets for full exploitation of the new business opportunities.
- To develop operational synergies with subsidiaries and joint ventures and continuously engage across the hydrocarbon value chain for the benefit of society at large.

Financial Objectives

- To ensure adequate return on the capital employed and maintain a reasonable annual dividend on equity capital.
- To ensure maximum economy in expenditure.
- To manage and operate all facilities in an efficient manner so as to generate adequate internal resources to meet revenue cost and requirements for project investment, without budgetary support.
- To develop long-term corporate plans to provide for adequate growth of the corporation's business.
- To reduce the cost of production of petroleum products by means of systematic cost control measures and thereby sustain market leadership through cost competitiveness.
- To complete all planned projects within the scheduled time and approved cost.

Source: Adapted from the Website of Indian Oil Corporation at: http://www.iocl.com/AboutUs/Objectives.aspx. Retrieved on 22 November, 2014.

Any organisation always has a potential set of goals. It has to exercise a choice from among these goals. This choice must be further elaborated and expressed as operational and measurable objectives. Exhibit 2.6 illustrates how a public sector company in India states strategic and financial objectives.

Role of Objectives

Objectives play an important role in strategic management. The various facets of such a role are described as follows:

- *Objectives define the organisation's relationship with its environment*: By stating its objectives, an organisation commits itself to what it has to achieve for its employees, customers, and the society at large.
- *Objectives help an organisation pursue its vision and mission:* By defining the long-term position that an organisation wishes to attain and the short-term targets to be achieved, objectives help an organisation in pursuing its vision and mission.
- *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.
- *Objectives provide the standards for performance appraisal*: By stating 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 organisational as well as individual performance could be judged. In the absence of objectives, an organisation would have no clear and definite basis for evaluating its performance.

Managers who set objectives for themselves and their organisations 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 he has to go, any path will take him there.

Characteristics of Objectives

Objectives, as measures of organisational behaviour and performance, should possess certain desirable characteristics in order to be effective. Seven such characteristics are provided as follows:

1. Objectives should be Understandable Because objectives play an important role in strategic management and are put to use in a variety of ways, they should be understandable by those who have 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 earlier is restated as 'our company plans to increase its sales by 12 per cent by the end of 2 years', it enhances the specificity of objectives. If objectives are related to a timeframe, then managers know the duration within which they have to be achieved.

4. Objectives should be Measurable and Controllable Many organisations 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 target 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 sub-optimal performance.

6. Different objectives should Correlate with each other Organisations 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 organisations, and a source of inter-departmental conflict, 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 especially true for organisations which are organised 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 utilisation. Organisations face many external constraints like legal requirements, consumer activism and environmental protection. All these limit the organisation's ability to set and achieve objectives.

In sum, objectives-setting is a complex process. We will further examine a few issues relevant to objectives, in order to understand this complex process.

Issues in Objective-setting

There are many issues which have a bearing on different aspects of objective-setting. We deal here with six such issues.

1. Specificity Objectives may be stated at different levels of specificity. At one extreme, they might be very broadly stated as goals while at the other they might be specifically stated as targets. Many organisations state corporate as well as general, specific, functional, and operational objectives. Note that specificity is related to the organisational levels for which a set of objectives has been stated. The issue of specificity is resolved through stating objectives at different levels and prefixing terms such as corporate, general, and particular so that they serve the needs for performance and of its evaluation.

2. Multiplicity Since objectives deal with a number of performance areas, a variety of them have to be formulated to cover all aspects of the functioning of an organisation. No organisation operates on the basis of a single or a few objectives. The issue of multiplicity deals with different types of objectives with respect to organisational levels (e.g. higher or lower levels), importance (e.g. primary or secondary), ends (e.g. survival or growth), functions (e.g. marketing or finance), and nature (e.g. organisational or personal). Another issue, related to multiplicity, is the number and type of objectives to be set. Too few or too many objectives are both unrealistic. Organisations need to set adequate and appropriate objectives so as to cover all the major performance areas.

3. Periodicity Objectives are formulated for different time periods. It is possible to set long-term, medium-term, and short-term objectives. Generally, organisations determine objectives for the long-and short-term. Whenever this is done, objectives for different time periods have to be integrated with each other. Long-term objectives are, by nature, less certain and are, therefore, stated in general terms. Short-term objectives, on the other hand, are relatively more certain, specific, and comprehensive. One long-term objective may result in several short-term objectives; many short-term objectives converge to form a long-term objective. For example, a long-term objective may be continual profitability. Short-term objectives which support continual profitability may be the return on investment, profit margin, return on net worth, etc. computed on a yearly basis.

4. Verifiability Each objective has to be tested on the basis of its verifiability. In other words, it should be possible for a manager to state the basis on which to decide whether an objective has been met or not. Only verifiable objectives can be meaningfully used in strategic management. Related to verifiability is the question of quantification. A definite way to measure any objective is to quantify it. But it may be neither possible nor desirable to quantify each and every objective. In such cases, qualitative objectives have to be set. These objectives could also be verified but not to the degree of accuracy possible for quantitative objectives. For example, a qualitative objective may be stated as: 'to create a congenial working environment within the factory'. In order to make such an objective verifiable, value judgement of informed experts— both insiders and outsiders—could be used. A few quantitative measures could also be devised which can serve as indicators of a congenial working environment. Some of these could be staff turnover, absenteeism, accident rates, productivity figures, etc. In sum, it can be said that the issue of verifiability could be resolved through a judicious use of a combination of quantitative and qualitative objectives.

5. Reality It is a common observation that organisations tend to have two sets of objectives: official and operative. Official objectives are those which the organisations profess to attain while operative objectives are those which they seek to attain in reality. Probably no one would be in a better position to appreciate the difference between these two objectives than a harried client of a bank who, on being maltreated by an arrogant bank employee, looks up to find a poster of a smiling and beautiful girl with folded hands looking down at him. The poster carries the caption: 'Customer service with a smile'! Many organisations state one of their official objectives as the development of human resource. But whether it is also an operative objective depends on the amount of resources allocated to human resource development.

6. Quality Objectives may be both good as well as bad. The quality of an objective can be judged on the basis of its capability to provide a specific direction and a tangible basis for evaluating performance. An example of a bad objective is: 'to be market leader in our industry'. It is insufficient with respect to its measurability. To restate the same objective as: 'to increase market share to a minimum level of 40 per cent of the total with respect to Product A over a period of the next two years and to maintain it thereafter' is a good objective since it is specific, relates to performance, is measurable, and provides a definite direction.

Recapitulating what we have said in this and the previous subsection, it can be stated that objectives have a number of characteristics and a variety of issues are involved in setting them. Determination of objectives is, therefore, a complex task. Further, two important questions need to be asked: What objectives are chosen for achievement and how they are determined? We attempt to answer the first question in the following subsection and the second in the next subsection.

What Objectives are Set?

To put it straight, objectives have to be set in all those performance areas which are of strategic importance to an organisation. In general, according to Drucker, objectives need to be set in the eight vital areas of market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility.[31] A prescriptive approach, such as the one suggested by Drucker, is based on those strategic factors which are supposedly vital for all types of organisations, but, in practice, organisations differ widely with regard to the objectives that they choose to set.

Research studies, based on survey of a large number of companies, too lead to a set of objectives that the companies determine for themselves. But even here, the set is more of a least common denominator rather than a true reflection of the objectives that the companies actually set for themselves. In order to illustrate this point, we could look at a study in the Indian context. Singh, who has studied 28 large companies, each having a turnover of more than Rs. 50 crore at the time of study, reports that the objectives were set in areas like:[32]

- profit (return on investment, return on shareholder's capital, net profits as a percentage of sales);
- marketing (increase in sales volume, market development for existing products, new product development, reduction in marketing cost, improving customer service);
- growth (output, sales turnover, investment);
- employees (industrial relations, welfare and development);
- social responsibility (community service, rural development, auxiliary industry development, family welfare).

Another study of 14 Indian firms by Anderson and Lanen found that measures related to customer expectations and satisfaction, competitors' performance, and internal information on process variations like quality measures, on-time delivery, unit product cost, and product quality failure have become more important as objectives in post-reform India.[33] A survey of 60 large- and medium-sized Indian manufacturing firms by Joshi, however, found extensive use of financial measures such as 'return on investment', 'variance analysis', and 'budgetary control' in performance evaluation. It also found a moderate use of on-going suppliers' evaluation and customer satisfaction surveys and a minimal use of non-financial measures in performance evaluation.[34]

Despite apparently contradictory research results, things in the Indian business environment have been changing. During the pre-liberalisation period, the emphasis among Indian corporate sector was on building assets and, therefore, size was of paramount importance. It was an insurance against competition. Indeed, for several years Indian companies tended to rely on size till some smaller but well-managed companies showed the way. Post-liberalisation, the business environment also changed where focus rather than unbridled diversification became the preferred strategic alternative.

Another crucial change has been the way project financing is done in India. In the past, there used to be excessive reliance on debt rather than equity. The capital market matured later causing the companies to use measures that would more realistically reflect the situation within and outside the companies. Value addition gained significance and value-based management became the key theme of strategic thinking. It is in this milieu that we find traditional measures for objective-setting and performance measurement like return on sales, return on investment, return on capital employed, return on net assets, and the like becoming partly redundant.

More recently, measures such as shareholder value, economic value added (EVA), and the market value added (MVA) have become more acceptable. Shareholder value is the present value of the anticipated future stream of cash flows from the business plus the value of the company if liquidated. Economic value added is value added to the shareholders by generating operating profits in excess of cost of capital employed in business. It is the residual income after charging the company for cost of capital provided by lenders and shareholders. Mathematically it is after-tax profit less the total annual cost of capital. Market value added measures the stock market's estimate of the net present value of a firm's past and expected capital investment projects.

Companies like Infosys Technologies and Hindustan Unilever were early adopters of the value-based measures. Several firms routinely mention the EVA in their annual reports to demonstrate the extent to which they have been able to create shareholder value.

A KPMG—*Business Standard* survey of the 1996–97 (the time when such measures of performance were being introduced in the Indian corporate sector) performance of Indian companies on value-based parameters threw up interesting results. While companies like Oil and Natural Gas Corporation Ltd. (ONGC), Hindustan Levers, Baja Auto, Videsh Sanchar Nigam Ltd, and Bharat Petroleum were expectedly top scorers others like Steel Authority of India, Tata Iron and Steel Company Ltd. (TISCO), Larsen and Toubro (L&T), Essar Steel, Indo Rama Synthetics, which are otherwise considered to be good companies, were the worst. Such is the change in perception of performance when viewed from the shareholder value viewpoint.[35] However, the interest in using EVA has not kept up over the years. A study that analysed the annual reports of India's largest 500 companies over a period of five years from 2004 to 2008 found that only 37 companies mentioned the use of EVA metric in their public disclosures.[36]

The value-based measures mentioned here will be again referred when we take up the issue of performance measurement as they are basically measures of corporate performance.

For the present, consider the following examples of objective-setting by different types of organisations. We are not including the usual financial parameters used by oganisations to judge performance. This is to provide you an idea of how the context in which organisations operate could dictate the criteria for objective-setting.

- Two-wheeler companies can use measures of performance such as the number of vehicles manufactured per annum, market share in per cent, level of indigenisation achieved in per cent, average cost per vehicle, and fuel efficiency achieved in kilometres per litre.
- Advertising agencies set objectives in terms of billings achieved in rupees per year.
- For steel manufacturing companies, a basic measure is the quantity of saleable steel, both in terms of installed capacity and actual production leading to capacity utilisation in per cent. Another operational measure is energy consumed per tonne of saleable steel.
- Insurance companies may set objectives in terms of the number of policies executed, sum assured, and expense-income ratio. Social objectives could be measured in terms of the percentage of insurable population covered and an investment mix consisting of government securities, social schemes, and corporate securities.
- Railways are basically concerned with objectives in the area of passenger traffic and freight handling. Passenger traffic is indicated by the volume of traffic handled in terms of the number of passengers and number of seats and berths available. Freight traffic is in the term of the volume of traffic handled expressed in weight and utilisation percent of wagons and locomotives.

- Hotels may set objectives in terms of the number of rooms available, occupancy rate, and cost per room. Subjective measures are maintaining the quality of hotel properties and quality of customer service provided.

The question that now remains to be addressed is: How are the objectives formulated? This issue is discussed in the next subsection.

How are Objectives Formulated?

From the foregoing discussion, it is clear that an organisation needs to set objectives at different levels, of various types, and for different time periods. Such objectives should possess certain desirable characteristics and should resolve certain issues before being used. The question that we now face is: how are objectives formulated?

Glueck identifies four factors that should be considered for objective-setting. These factors are: the forces in the environment, realities of enterprise's resources and internal power relationships, value system of top executives, and awareness by management of the past objectives of the firm. Here is a brief description of each these factors.

- *The forces in the environment*: These take into account all the interests—sometimes coinciding but often conflicting—of the different stakeholders in an organisation. Each group of shareholders have claims or expectations in setting objectives. It is important to note that the interests of various shareholders may change from time to time, necessitating a corresponding shift in the importance attached to different objectives.
- *Realities of enterprise' resources and internal power relationships*: These mean that objectives are dependent on the resources capability of a company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources. Resources—both material and human—place restrictions on the objective-achieving capability of the organisation. Internal power relationships too 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. Again, since power configurations within a firm are continually changing, the relative importance attached to different objectives may also vary over a period of time.
- *The value system of the top executive:* This has an impact on the corporate philosophy that organisations adopt with regard to strategic management in general and objectives in particular. Values, as an enduring set of beliefs, shape perceptions about what is good or bad, desirable, or undesirable. This applies to the choice of objectives too. For example, entrepreneurial values may result in prominence being given to profit objectives while a philanthropic attitude and values of social responsibility may lead to setting socially-oriented objectives.
- *Awareness by the management:* Awareness of the past objectives may lead the organisation to a choice of objectives that have been emphasised in the past due to different reasons. For instance, a dominant chief executive lays down a set of objectives and the organisation continues to follow it, or marginally deviates from it in the future. This happens because organisations do not depart radically from the paths that they been following in the recent past. Whatever changes occur in their choice of objectives take place incrementally in an adaptive manner.

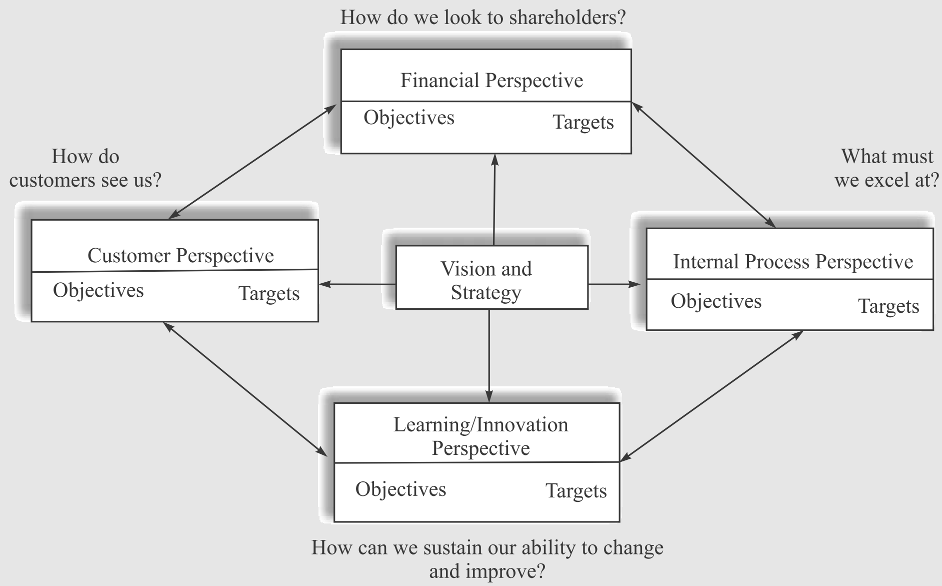
Keeping in view the four factors, as described earlier, we observe that objective-setting is a complex task which is based on consensus-building and has no precise beginning or end. Vision and mission provide a 'common thread' to bind together the different aspects of the objective-setting process by providing a specific direction along which the organisation can move.

The binding together of the different levels of the hierarchy of strategic intent is facilitated by a technique such as the balanced scorecard that we discuss next.

Balanced Scorecard Approach to Objectives-setting

The performance management system called balanced scorecard, developed by Robert S. Kaplan and David Norton of Harvard Business School, seeks to do away with the undue emphasis on short-term financial objectives and seeks to improve organisational performance by focusing attention to measuring and managing a wide range of non-financial operational objectives. Later the system application was enlarged to include its usage as a comprehensive strategic planning technique. In doing so, the balance scorecard approach advocates a top-down approach to performance management, starting with strategic intent expressed through the organisation down to operationally relevant targets.[38] Exhibit 2.7 shows the balanced scorecard model.

Exhibit 2.7 The Balanced Scorecard Model



Source: Adapted from R.S. Kaplan and D.P. Norton: *The Strategy-focused Orientation: How Balanced Scorecard Companies Thrive in the New Business Environment* (Boston: Harvard Business School Publishing, 2000) and R.S. Kaplan and D. P. Norton: *The Balanced Scorecard: Translating Strategies into Action* (Boston: Harvard Business School Press, 1996).

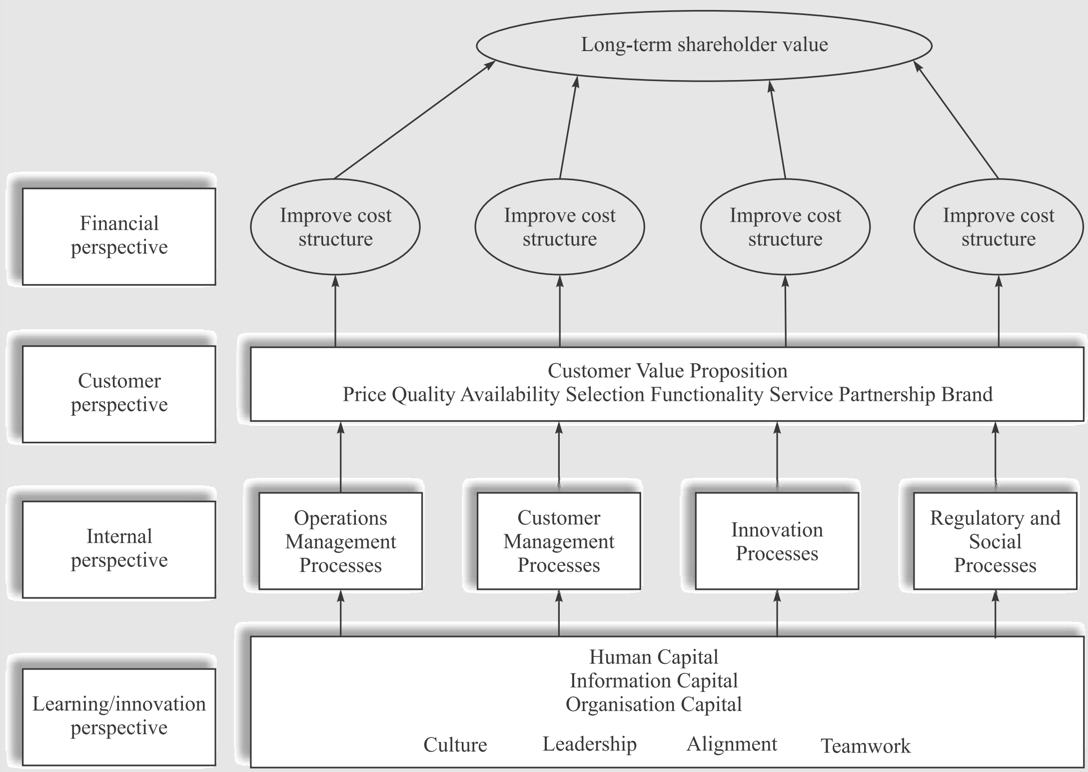
The balance scorecard model requires evaluation of organisational performance from four different perspectives.

- *Financial perspective*: This perspective considers the financial measures arising from the strategic intent of the organisation. Examples of such measures are revenues, earnings, return on capital, and cash flow.
- *Customers' perspective*: This perspective measures the ability of the organisation to provide quality goods and services, effective delivery, and overall customer satisfaction. Examples of such measures are market share, customer satisfaction measures, and customer loyalty.
- *Internal businesses perspective*: Internal business processes are the mechanisms through which performance expectations are achieved. The internal businesses perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organisational objectives and customer expectations, organisations must identify the key business processes at which they must excel. Examples of such measures are productivity indices, quality measures, and efficiency.

- *Learning and growth perspective*: This perspective focuses on the ability of the organisation to manage its businesses and adapt to change. In order to face the challenges of change outside and customer expectations, organisations take on new responsibilities that require its employees to develop new skills and capabilities. Examples of such measures are morale, knowledge, employee turnover, usage of best practices, share of revenue from new products, and employee suggestions.

Kaplan and Norton used the technique of strategy maps that provide a visual representation of the organisation's strategy. In such maps, the four perspectives were connected to each other in a 'cause and effect' fashion thus making clear the relationship of all the strategic objectives to the strategic intent of the organisation. A typical strategic map is shown in Exhibit 2.8.

Exhibit 2.8 A Typical Strategic Map



Source: Adapted from R.S. Kaplan and D.P. Norton: *The Strategy-focused Orientation: How Balanced Scorecard Companies Thrive in the New Business Environment* (Boston: Harvard Business School Publishing, 2000) and R.S. Kaplan and D.P. Norton: *The Balanced Scorecard: Translating Strategies into Action* (Boston: Harvard Business School Press, 1996).

Our purpose here is to note that objective-setting can use the balanced scorecard approach. The four perspectives above can help an organisation to set objectives. The utility of the balanced scorecard approach lies in the prioritisation of key strategic objectives that can be allocated to each of these four perspectives and the identification of associated measures that can be used to evaluate organisational progress in meeting the objectives.

In practice, the balanced scorecard approach almost works as follows:

1. The development of the scorecard begins with the establishment of the organisation's strategic intent including the vision and mission.
2. Next, the design of the balanced scorecard is done identifying the specific measures related to the four perspectives. The specific strategies that should be formulated and implemented to realise that vision are determined.
3. The following step involves mapping the strategy through the identification of organisational activities that are derived from the strategies. For example, achieving financial growth may be expressed in terms of sales growth and revenue growth.
4. In the final stage, metrics that can be used to accurately measure the performance of the organisation in the specific areas are established. In the example mentioned earlier, metrics for revenue growth may be expressed in terms of sales to new customers, sales of new services or products, or entry into new markets.

Balanced scorecard approach has become popular around the world including India. The experience of Indian companies in using the balanced scorecard is mixed. An early study of implementation of the balanced score card approach in 53 Indian companies came up with these major findings.[39]

- The balanced scorecard adoption in Indian corporate sector matches that of in the United States indicating its growing popularity.
- The financial perspective has been found to be the most important perspective followed by customers' perspective, shareholders' perspective, internal business perspective, and learning and growth perspective.
- The difficulty in assigning 'weight' to the different perspectives and in 'establishing cause and effect relationship among these perspectives' has been found to be the most critical issue in the implementation of the balanced scorecard approach in corporate India.

There is enough practical evidence to suggest that strategists do not, in reality, follow a well-balanced, integrated, and comprehensive approach to objective-setting. In fact, they might start with asking the question: What do we have to achieve in order to be successful in our business? The next subsection discusses this question.

Critical Success Factors

Many of us occasionally ask ourselves questions like: What do we need to do in order to be successful in our: Studies? Career? Profession? Marriage? Similarly managers too are concerned about knowing those critical factors which lead to success for their organisations. Critical success factors (CSFs), sometimes referred to a strategic factors or key factors for success, are those which are crucial for organisational success. When strategists consciously look for such factors and take them into consideration for strategic management, they are likely to be more successful putting in relatively less efforts.

A shoe manufacturing company may consider the following CSFs: high manufacturing quality, cost efficiency, sophisticated retailing, a flexible product mix, and creation of a product image. Toothpaste is a very personal product and so enjoys a high brand loyalty. Besides this, four qualities are important in toothpaste: form, flavour, foam, and freshness. A company manufacturing toothpaste has to excel in these qualities besides building up a high loyalty in order to be successful. In general, service organisations exist on the basis of the quality of their customer service. But there are other CSFs too. A courier service, for instance is critically dependent on three factors: speedy despatch, reliability, and price. Observe from these examples that if organisations keep in view the relevant CSFs, they can be used for objective-setting as well as for exercising a strategic choice (we will deal with the latter in a subsequent chapter).

Steiner, based on a study related to identifying strategic factors which are important in different businesses, confirms that 'there are indeed strategic factors needed for the success of a business and they can be identified.'[40] Seen in this light, the eight attributes of excellence found by Peters and Waterman could be considered as generalised CSFs across several different American industries.[41]

Rockart has applied the CSFs approach to several organisations through a three-step procedure for determining CSFs. These steps are: to generate the success factors (what does it take to be successful in business?), refining CSFs into objectives (what should the organisation's goals and objectives be with respect to CSFs?) and identifying measures of performance (how will we know whether the organisation has been successful on this factor?).[42]

Ohmae treats CSFs (or key factors for success, as he calls them) as a basic business strategy for competing wisely in any industry. He suggests identifying the CSFs in an industry or business and then to 'inject a concentration of resources into a particular area where the company sees an opportunity to gain significant strategic advantages over its competitors.' Resources are allocated to a particular area only when objectives are set for achievement in that area. A strategy based on CSFs would, therefore, require setting objectives for those CSFs also.

Some points regarding the CSFs are worth noting:

1. A set of CSFs is the result of asking the question: what do we need to do in order to be successful in a particular context?
2. They are based on practical logic, heuristic, or a rule of thumb rather than an elaborate procedure or an esoteric theoretical model.
3. Critical success factors are the results of long years of managerial experience which leads to the development of intuition, judgement and hunch for use in strategic decision-making.
4. An analysis of what relevant CSFs operate in a particular context could be based on the manager's statements, expert opinions and organisational success stories.
5. They could also be generated internally through creative techniques such as brainstorming.
6. The use of CSFs in objectives-setting and strategic choice distinguishes the successful organisations from the unsuccessful ones.
7. Critical success factors are used to pinpoint the key result areas, determining objectives in those areas, and devising measures of performance for judging the objective-achieving capability of any organisation.

Critical success factors need key performance indicators in order to be measured. As we will see, CSFs make us ask the question: What must we do in order to be successful? Key performance indicators pose the question: What indicates that we are doing what we need to do in order to be successful?

Key Performance Indicators

Performance indicators are well understood as being metrics or measures in terms of which performance is measured, evaluated, or compared. Key performance indicators (KPIs) are the metrics or measures in terms of which the critical success factors are evaluated. What makes the KPIs 'key' is their relationship to the CSFs and ultimately to the vision of the organisation. An organisation might have the vision 'to be the most profitable company in our industry'. For making this vision operational, it needs to determine KPIs such as pre-tax profit or shareholder equity that measure profitability. In the case of this organisation, the per cent of profit contributed to community causes will not be a relevant KPI. For an organisation, that states its vision 'to be a responsible corporate citizen' the KPI of per cent of profit contributed to community causes is appropriate.

Identification of which KPIs to use is important. A shoe manufacturing company that considers high manufacturing quality or cost efficiency as its critical success factors has to think of the metrics in terms of which it will measure these parameters. High manufacturing quality will have to be expressed in terms of an indicator such as product recall rate after delivery, product reject rate, on-time delivery, or number of complaints. The company has to determine which combination of metrics it would use to determine whether it is successful. Key performance indicators thus help to quantify the critical success factors.

Selecting the right measures is vital for effectiveness. Even more importantly, the metrics must be built into a performance measurement system that allows individuals and groups to understand how their behaviours and activities are fulfilling the overall corporate goals. If a KPI is going to be of any value, there must be a way to accurately define and measure it. 'Generate More Repeat Customers' may apparently seem to be impressive as an objective but could be inappropriate as a KPI without some way to distinguish between new and repeat customers. 'Be The Most Popular Company' may not work if there is no way to measure the company's popularity or compare it to its competitors. If a company wishes to be 'an employer of choice' then a relevant KPI might be 'the number of voluntary resignations divided by the total number of employees at the beginning of the measurement period'. To make this KPI practical the human resource management information system should be able to provide information to measure on the basis of this metrics otherwise the KPI itself becomes redundant.

Key performance indicators have gained importance as well as popularity in the corporate world as they have several benefits. The major benefit in using KPIs is to help an organisation define and measure progress toward its objectives. Key performance indicators give everyone in the organisation a clear picture of what is important and what they need to do to accomplish objectives. They are a helpful tool for organisations to motivate their employees towards achievement of objectives. Key performance indicators are applied in business intelligence to gauge business trends. Developments in the areas of business intelligence and business performance management are enabling development of sophisticated information technology based tools such as *dashboards* that show organisational performance at a glance in the form of visual charts and videos. Key performance indicators can also be used for benchmarking performance of an organisation over time and to compare performance with rivals in the same industry.

Having seen what CSFs and KPIs are and how they can be used for strategic decision-making, we now reiterate our position on the hierarchy of strategic intent. An explicit structuring of a hierarchy of a strategic intent has important implications for strategic management. First, it serves as a charter of aims the organisation plans to achieve. Second, it is helpful in laying down the aims of different subsystems within an organisation. Third, it is a powerful means of communicating the organisational intent down the line. And, lastly, it ensures the creation of a result-oriented organisational system set to attain the mission and realise the vision of the organisation.

With the hierarchy of strategic intent, the organisation knows the answer to the question: What is to be achieved? The next important question is: What are the means to be adopted in order to realise the intent? The subsequent part of this book will attempt to answer this question.

Summary by Learning Objectives

This chapter has been devoted to the discussion of the hierarchy of strategic intent. Organisations lay down objectives at different levels starting from the enunciation of their strategic intent down to the practical level of time-bound, specific objectives. This chapter deals with a whole range of issues related to the hierarchy that extends from the level of objectives right up to the level of strategic intent.

The main points covered in this chapter are as follows:

LO 1 *Explain the concepts of strategic intent, stretch, leverage, and fit*

- Strategic intent refers to the purposes the organisation strives for. These may be expressed in terms of a hierarchy of strategic intent. The framework within which firms operate, adopt a predetermined direction, and attempt to achieve their goal is provided by an overarching strategic intent.
- The hierarchy of strategic intent covers the vision and mission, business definition, business model, and the goals and objectives.
- Associated with the idea of strategic intent are the concepts of stretch, leverage, and fit. Stretch is a misfit between resources and aspirations. Leverage refers to concentrating, accumulating, complementing, conserving, and recovering resources in such a manner that meagre resource base is stretched to meet the aspirations that an organisation dares to have. The idea of stretch is diametrically opposite to the idea of fit that means positioning the firm by matching its organisational resources to its environment.

LO 2 *Describe and differentiate between the concepts of vision and mission*

- Vision constitutes future aspirations that lead to an inspiration to be the best in one's field of activity. They have several benefits. The process of envisioning involves dealing with the two components of core ideology and envisioned future. The core ideology defines the enduring character of an organisation that remains unchangeable. The envisioned future has a time-bound, long-term goal a vivid description of what it will be like to achieve that goal.
- Mission is a statement which defines the role that an organisation plays in the society. The definition of mission has gradually expanded to represent a concept that embodies the purpose of existence of an organisation.

LO 3 *Define mission, and discuss mission statement its characteristics, formulation and communication*

- Organisations derive their mission statements from a particular set of tasks they are called upon to perform. Entrepreneurs may envision the type of organisation that they wish to build. Major strategists may contribute to the building up of a mission statement formally or informally. Specialised assistance from consultants could also be used as a means for formulation of a mission statement.
- There are several characteristics of a mission statement. In order to be effective a mission statement should be feasible, precise, clear, motivating, distinctive, indicate the major components of strategy, and indicate how objectives are to be accomplished.

LO 4 *Explain the three dimensions of business definition*

- Business definition involves defining a business along the three dimensions of customer groups, customer functions, and alternative technologies. Customer groups relate to 'who' is being satisfied, customer needs describe 'what' is being satisfied and alternative technologies means 'how' the need is being satisfied.
- Business definition could be defined at several levels. At the corporate level, the business definition will concern itself with the wider meaning of customer groups, customer functions, and alternative technologies. The divisions of an organisation could have more accurate business definitions covering all the three dimensions. Each division could again have more accurate business definition at the SBU-level.
- A product/service concept is the manner in which a company perceives its product or service. Such a perception is based on how the product or service provides functions that satisfy customer needs.

LO 5 *Comprehend business model and their relationship with strategy*

- Business models are often expressed in the form of a question: How does the organisation make money? Strategies result in choices; a business model can be used to help analyse and communicate these strategic choices. Business models are down-to-earth prescriptions to implement the strategies.

LO 6 *Describe the role and characteristics of objectives and objective-setting*

- Goals denote what an organisation hopes to accomplish in a future period of time. They represent the future state or outcome of effort put in now. Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals that are generalised.
- Objectives play an important role in strategic management. They define the organisation's relationship with its environment, help an organisation pursue its vision and mission, provide the basis for strategic decision-making, and provide the standards for performance appraisal.
- The characteristics of objectives should be such that they are understandable, concrete and specific, relate to a time frame, measurable and controllable, challenging, correlate with other objectives, and set within constraints.
- The issues in objective setting are those of specificity, multiplicity, periodicity, verifiability, reality, and quality.
- Objectives need to be set in all those performance areas which are of strategic importance to an organisation.
- The factors taken into account for formulation of objectives are the forces in the environment, realities of enterprises' resources and internal power relationships, value system of the top executives, and awareness by the management.
- Objective-setting can use the four perspectives of the balanced scorecard approach. This helps in the prioritisation of key strategic objectives that can be allocated to each of these four perspectives and the

identification of associated measures that can be used to evaluate organisational progress in meeting the objectives.

Exercises

Short Answers Questions

1. What is meant by 'strategic intent'? **(LO 1)**
2. Give brief explanation of each of these concepts: (a) stretch (b) leverage (c) fit. **(LO 1)**
3. What are the possible pitfalls in not having a vision for an organisation? **(LO 2)**
4. Define 'mission' in your own words. **(LO 2)**
5. Mention the characteristics of a good mission statement. **(LO 2)**
6. What problems can an imprecise and unclear mission create for an organisation? **(LO 2)**
7. Explain the three dimensions of business definition. **(LO 3)**
8. Relate product/service concept to the strategic intent of an organisation. **(LO 2, 3)**
9. How is business model related to the strategy of an organisation? **(LO 4)**
10. Identify the roles that objectives play in strategic management. **(LO 5)**
11. State the issues of importance to objective setting. **(LO 5)**
12. Mention the characteristics of objectives. **(LO 5)**
13. Only verifiable objectives can be meaningfully used in strategic management. Why? **(LO 5, 6)**
14. Name some important constraints under which objectives are set. **(LO 5, 6)**
15. State any two objectives, which, in your opinion are of bad quality. Now alter them in such a way that their quality improves? **(LO 5, 6)**
16. In what terms can a power corporation set its objectives? A business school? A graduate aspiring for MBA admission? **(LO 5, 6)**
17. Propose the factors to be taken into account while setting objectives. **(LO 6)**
18. Why can parameters such as shareholder value, economic value added or market value added be better for objective setting? **(LO 6)**
19. How can the technique of balanced scorecard help in objective-setting? **(LO 6)**

Assurance of Learning Exercises

1. Give a lucid description of these concepts: (a) strategic intent (b) stretch (c) leverage (d) fit. Discuss the manner in which these concepts aid our understanding of strategic management. **(LO 1)**
2. 'A vision is too abstract to be of any practical value'. Do you agree with this statement? Why? **(LO 2)**
3. Describe the essential characteristic of a mission statement. In what different ways can a mission statements of be formulated? **(LO 2)**
4. Cleartrip, an online travel service company (www.cleartrip.com) had its mission as 'making travel simple'. Analyse the mission statement from the viewpoint of characteristics of mission statements. **(LO 2)**
5. Here are five mission statements of pharmaceutical companies in India. Which is the best statement in your opinion? Why? **(LO 2)**
   Cipla Ltd.: 'To provide excellent quality health care facilities at a reasonable cost'
   Dr. Reddy's Labs: 'To become a global pharmaceutical company and produce quality drugs at competitive prices'.
   Glaxo India Ltd.: 'To augment the parent company's efforts to be a global player based on research and development'.
   Lupin Labs: 'To develop the welfare of mankind through development of relevant technology in chemistry-related science'.
   Wockhardt Ltd.: 'Pursuit of growth with excellence in the field of pharmaceuticals'.
6. Consider any organisation of your choice. Attempt to define its business along the dimensions of customer groups, customer functions, and alternative technologies. What insight does such a definition offer to you for strategic management of your chosen organisation? **(LO 3)**
7. At what different levels can a business be defined? Explain these different levels and indicate the manner in which they can be integrated with each other. **(LO 3)**
8. Suggest the business model of an online real estate marketing company in India (such as magicbricks.com or 99acres.com) interested in optimising its advertisement sales revenue from builders and brokers. **(LO 4)**
9. Through the use of suitable examples, explain the role that objectives play in strategic management. **(LO 5)**
10. What are the various desirable characteristics that objectives should possess in order to be effective? **(LO 5)**

11. Examine the various issues involved in objective-setting. How can each of these issues be resolved? **(LO 6)**

12. Assuming yourself to be the chief executive of an organisation, relate the difficulties you would face in choosing and setting the objectives for your organisation. **(LO 6)**

Review Case

THE STRATEGIC ASPIRATIONS OF THE RESERVE BANK OF INDIA*

The Reserve Bank of India (RBI) is India's central bank or 'the bank of the bankers'. It was established on 1 April 1935, in accordance with the provisions of the Reserve Bank of India Act, 1934, and nationalised in 1949. The central office of the RBI, initially set up at Kolkata, is at Mumbai. The RBI is fully owned by the Government of India.

Most central banks around the world were established around the beginning of the twentieth century. The history of the RBI is closely aligned with the economic and financial history of India. The Bank was established on the basis of the recommendations of the Royal Commission on Indian Currency and Finance called the Hilton Young Commission. It began its operations by taking over from the government the functions so far being performed by the controller of currency and from the Imperial Bank of India, the management of government accounts and public debt. After independence, RBI gradually strengthened its institution-building capabilities and evolved in terms of functions from central banking to that of development. There have been several attempts at reorganisation, restructuring, and creation of specialised institutions to cater to emerging needs.

The Preamble of the RBI Act describes its basic functions like this: '...to regulate the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.' The vision stated that the RBI '…aims to be a leading central bank with credible, transparent, proactive and contemporaneous policies, and seeks to be a catalyst for the emergence of a globally competitive financial system that helps deliver a high quality of life to the people in the country.' The mission stated that 'RBI seeks to develop a sound and efficient financial system with monetary stability conducive to balanced and sustained growth of the Indian economy'. The corporate values underlining the mission statement included public interest, integrity, excellence, independence of views, and responsiveness and dynamism.

The three areas in which objectives of the RBI can be stated are as follows:

1. Monetary policy objectives such as containing inflation and promoting economic growth, management of foreign exchange reserves, and making currency available.
2. Objectives set for managing financial sector developments such as supervision of systems and information access and assisting banking and financial institutions to become competitive globally.
3. Organisational development objectives such as development of economic research facilities, creating information system for supporting economic decision-making, financial management and human resource management.

Strategic actions taken to realise the objectives fall under four categories:

1. The thrust area of monetary policy formulation and managing financial sector.
2. Evolving the legal framework to support the thrust area.
3. Customer services for providing support and creation of positive relationship.
4. Organisational support such as structure, systems, human resource development and adoption of modern technology.

The major functions performed by the RBI are:

- Acting as the monetary authority
- Acting as the regulator and supervisor of the financial system
- Discharging responsibilities as the manager of foreign exchange
- Issuing currency
- Playing a developmental role
- Related functions such as acting as the banker to the government and scheduled banks

The management of RBI is the responsibility of the central board of directors headed by the governor and consisting of deputy governors and other directors all of whom are appointed by the government. There are four local boards based at Chennai, Kolkata, Mumbai, and New Delhi. The day-to-day management of RBI is in the hands of the executive directors, managers at various levels, and support staff. There are about 17,000 employees at RBI working in 26 departments and training colleges.

The RBI had identified its strengths and weaknesses as under.

- *Strengths*: A large body of competent officers and staff; access to key data on the economy; wide organisational network with 22 regional offices; established infrastructure; ability to attract talent; and financial self-sufficiency.
- *Weaknesses:* Structural rigidity, lack of accountability and slow decision-making; eroded specialist know-how; strong employee unions with rigid industrial relations stance; surplus staff; and weak market intelligence.

Over the years, the RBI has evolved in terms of structure and functions in response to the role assigned to it. There have been sweeping changes in the economic, social, and political environment. Reserve Bank of India has had to respond to it even in the absence of a systematic strategic plan. In 1992, the RBI with the assistance of a private consultancy firm embarked on a massive strategic planning exercise. The objective was to establish a roadmap to redefine RBI's role in and to review internal organisational and managerial efficacy, address the changing expectations from external stakeholders, and reposition the bank in the global context. The strategic planning exercise was buttressed by departmental position papers and documents on various subjects such as technology, human resources, and environmental trends. The strategic plan of RBI emerged with four sections dealing with the statement of mission, objectives and policy, a review of RBI's strengths and weaknesses, and strategic actions required with an implementation plan. The strategic plan reiterates anticipation of evolving external environment in the medium-term; revisiting strengths and weaknesses (evaluation of capabilities); and doing away with the outdated mandates for enhancing efficiency in operations in furtherance of best public interests. The results of these efforts are likely to manifest in attaining a visible focus, reinforced proficiency, realisation of shared sense of purpose, optimising resource use, and build-up of momentum to achieve goals.

In the mid-2013–14, the Reserve Bank set a medium-term agenda of transforming the financial sector with the aim to create a more efficient and inclusive system. This agenda was built on five pillars. The approach encompasses: (a) strengthening the monetary policy framework; (b) increasing diversity and competition in banking industry while improving governance in existing banks; (c) broadening the choice of financial instruments, and deepening and enhancing liquidity in financial markets; (d) improving access to finance; and (e) reinforcing the financial system's ability to cope with stress.

Historically, the RBI adopted the time-tested technique of responding to external environment in a pragmatic manner and making piecemeal changes. The dilemma in adoption of a comprehensive strategic plan was the risk of trading off the flexibility in the pragmatic approach to creating rigidity imposed by a set model of planning.

Questions

1. Consider the vision and mission statements of the Reserve Bank of India. Comment on the quality of both these statements. **(LO 2)**
2. Comment on the possibility of RBI achieving its agenda of transforming the financial sector in the light of its organisation structure, capabilities, and strengths and weaknesses. **(LO 1, LO 5)**
3. Should the RBI go for a systematic and comprehensive strategic plan in place of its earlier pragmatic approach of responding to environmental events as and when they occur? Why? **(LO 2, LO 5)**

Notes and References

1. Dabur India website at *http://www.dabur.com/*; See its annual report 2013–14 at *http://www.dabur.com/en/investors1/Annual_reports/2013-14/DIL-AR-2013-14.pdf*; "All about the family: Dabur does it right" available at *http://entrepreneurindia.in/people/coverstory/all-about-the-family-dabur-does-it-right/22910/*; "Dabur strategy yields higher sales growth" available at *http://www.livemint.com/Money/ve8amnu52HvsOdDp0puSYN/Dabur-strategy-yields-higher-sales-growth.html*. All websites retrieved 22 November, 2014.
2. G. Hamel and C.K. Prahalad: 'Strategic Intent' *Harvard Business Review* (May–June, 1989): 63–76.
3. Survey reported in *Business Today*, 7 January –6 February, 1998; Reliance and Ranbaxy examples from same issue.
4. Strategic intent of ITC and DTDC adapted from their company websites at *http://www.itcportal.com/businesses/fmcg/index.aspx* and *http://dtdc.com/cp_si.asp* Retrieved 19 December, 2013.
5. G. Hamel and C.K. Prahalad: 'Strategy as Stretch and Leverage' *Harvard Business Review*, (Mar–April, 1993): 75–84.
6. J. Kotter, *A Force for Change: How Leadership Differs from Management* (London: Free Press, 1990).
7. M. S. S. El-Namaki, 'Creating a Corporate Vision' *Long Range Planning*, 25, no. 6, (1992): 25–29.
8. A. Miller and G. G. Dess, *Strategic Management,* 2nd ed. (New York: McGraw-Hill, 1996): 6.
9. J. Parikh and F. Neubauer: 'Corporate Visioning' in *International Review of Strategic Management*, vol. 4, edited by D. E. Hussey), (West Sussex, England: John Wiley & Sons, 1993): 109–11.
10. J. C. Collins and J. I. Porras, 'Building your Company's Vision' in *Harvard Business Review* (September–October, 1996): 65–77.
11. P.F. Drucker, *Management-Tasks, Responsibilities, Practices*, (New York: Harper and Row, 1974): 77–79.
12. See Bain and Company website here: *http://www.bain.com/publications/business-insights/management-tools-and-trends.aspx* Retrieved 28 December, 2013. Also see *Management Tools and Techniques: An Executive Guide*, (Boston, MA: Bain & Company, 1999).
13. 'World Class Management Benchmarks for the Millennium' in *Business Today*, 22 Feb–6 Mar, 1998: 62–81.
14. H.V. Verma, "Corporate Conscious and Conscience: A Study of Vision and Mission' *LBS Journal of Management Research* (June, 2004): 41–59.
15. J.L. Thompson: *Strategic Management: Awareness and Change,* 3rd ed. (London: International Thomson Business Press, 1997): 6.
16. J. D. Hunger and T.L. Wheelen, *Strategic Management*, (Reading, Mass.: Addison Wesley Longman, 1999): 10.
17. 'Developing the HRD Way' in *Business India*, 14 Dec.-27 Dec, 1987: 81.
18. S. Jha, P. Vasudevan, W. Joshi, and R. Sankarasubramanyan, 'The Story of Transcend' *AI Practitioner*, 15, no.1 (Feb 2013): 50–53.
19. Examples of mission statements adapted from A. Dutta: 'Meaning to Work' *The Economic Times (Corporate Dossier)*, 21 July–27 July, 1999: 3.
20. C.K. Bart, 'Mission Statement in Canadian Not-for-Profit Hospitals: Does Process Matter?' *Health Care Management Review,* 25, no.2 (2000): 45–63.
21. C.K. Bart, 'Exploring the Application of Mission Statements on the World Wide Web,' *Internet Research*, 11, no. 4 (2001): 360–68.
22. B. Bartkus, M. Glassman and B. McAfee, 'Do Large European, US and Japanese Firms Use Their Web Sites To Communicate Their Mission?' *European Management Journal*, 20, no. 4, (Aug 2002): 423–29.
23. D.F. Abell, *Defining the Business: The Starting Point of Strategic Planning*, (Englewood Cliffs, N.J.: Prentice-Hall, 1980)
24. C.W.L. Hill and G.R. Jones: *Strategic Management Theory: An Integrated Approach*, (Boston, Mass.: Houghton Mifflin, 1998): 39.
25. R.A. Mashelkar, 'Science, Technology, Innovation: Their Impact on Political Power' Bose Einstein Lecture, 13 December, 1999 available at the website of the National Innovation Foundation at *http://www.nifindia.org/'I'%20for%20Innovation.htm* Retrieved 28 January, 2007.
26. S.M. Shafer, H.J. Smith and J.C. Linder, 'The Power of Business Models' *Business Horizons*, Elsevier, 48, no. 3 (2005): 199-207.
27. P. Srinivasan and V. Babu, 'India's Famous IT Brigade' *Business Today, 4* December, 2005:100.
28. C. Velu and M. Khanna 'Business Model Innovation in India', *Journal of Indian Business Research*, 5, no. 3, (2013): 156–70.
29. Information on Nortel India's website at: *http://www.nortel.com/corporate/pressroom/feature_article/2006b/05_08_06_wireless.html* Retrieved 3 January, 2007.
30. M. Dhanuka, D. Price and W. Teichner, *What Works: Building Social Capital with Aptech's Vidya*, August 2003, World Resources Institute; Informa-

tion related to Aptech's Vidya project available on the website of World Resources Institute at *http://www.digitaldividend.org/pdf/vidya.pdf* Retrieved 3 January, 2007.

31. P.F. Drucker, *The Practice of Management*, (New York: Harper and Row, 1954): 63.
32. B. R. Singh, *Corporate Planning Practices in Large Indian Companies*, Unpublished doctoral dissertation, Banaras Hindu University, Varanasi, 1983.
33. S.W. Anderson and W.N. Lanen 'Economic Transition, Strategy, and the Evolution of Management Accounting Practices: The Case of India' *Accounting, Organizations and Society*, 24, nos. 5 and 6 (July-August 1999): 379–412.
34. P. L. Joshi 'The International Diffusion of New Management Accounting Practices: The Case of India,' *Journal of International Accounting, Auditing, and Taxation*, 10, no. 1 (2001): 85–109.
35. 'Caught at the Tide,' (pp. 4 –5) and 'Corporate India: An Economic Value Scoreboard' *Business Standard (The Strategist Quarterly)*, January–March 1998, 21–29.
36. M. Kaur and S. Narang, 'EVA® Disclosures in the Annual Reports of Indian Companies: An Empirical Study' *Global Business Review*, 11 (Oct 2010): 395–420. Also see: S. Kumar and A.K. Sharma, 'Further Evidence on Relative and Incremental Information Content of EVA and Traditional Performance Measures from Select Indian Companies', *Journal of Financial Reporting and Accounting*, 9, no.2 (2011): 104–18.
37. W. F. Glueck and L.R. Jauch, *Business Policy and Strategic Management,* 4th ed. (New York: McGraw-Hill, 1984): 58.
38. Balanced scorecard was first proposed in R.S. Kaplan and D.P. Norton 'The Balanced Scorecard: Measures that Drive Performance' *Harvard Business Review*, 70, no. 1 (January–February 1992): 71–79; and later elaborated in: R. S. Kaplan and D. P. Norton *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business School Press, 1996).
39. M. Anand, B. S. Sahay, and S. Saha 'Balanced Scorecard in Indian Companies' *Vikalpa,* 30, no.2 (Apr–Jun 2005): 11–25. Also see: M. Singh, and S. Kumar "Balanced Scorecard Implementations–Global and Indian Experience,' *Indian Management Studies Journal*, 11, (2007): 21–39 and R. Batra 'The Balanced Scorecard: An Indian Perspective' *ICFAI Journal of Management Research*, 5, no.8 (2006): 7–27.
40. George A. Steiner, *Strategic Factors in Business Success*, (New York: Financial Executives Research Foundation, 1969).
41. T. J. Peters and R. H. Waterman, Jr., *In Search of Excellence*, (New York: Harper & Row, 1982).
42. John F. Rockart, 'CEs Define their Own Data Needs', in *Harvard Business Review* (March–April 1979): 89.
43. Kenichi Ohmae, *The Mind of the Strategist*, (New York: Penguin Books, 1982): 39.
44. 'Organisation Evolution and Strategic Planning', in *Report on Currency and Finance 2005-2006* Reserve Bank of India, Mumbai 31 May, 2007, *Annual Report 2013-2014* Reserve Bank of India, Mumbai 21 August, 2014 available at *http://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/RBIARE210814_FULL.pdf*; Official website of RBI at *http://www.rbi.org.in* Retrieved 22 November, 2014.

3

CHAPTER

Strategic Management for Sustainability

Learning Objectives

After reading this chapter you should be able to:

LO 1 Express the relationship of sustainability and strategic management
LO 2 Describe the association between stakeholders' management and strategic management
LO 3 Examine the role of corporate governance in strategic management
LO 4 Identify the contribution of social responsiveness to strategic management

Chapter Outline

Preview Case

SUSTAINABLE STRATEGIES AT HINDUSTAN UNILEVER*

Unilever is one of the world's oldest multinational companies. Its origin can be traced to the nineteenth century when a group of companies, operating independently, produced soaps and margarine. In 1930, the companies merged to form Unilever that diversified into food products in the 1940s. Over the next five decades it emerged as a major fast-moving consumer goods (FMCG) multinational operating in several businesses. Unilever operates in more than 190 countries serving 2 billion customers and derives a major part of its income from the developing and emerging economies around the world. It is a culturally-diverse organisation with its top management coming from several nations. Internationalisation is based on the principle of local roots with global scale aimed at becoming a 'multi-local multinational'.

The origin of Hindustan Unilever Ltd (HUL) in India dates back to 1888 when Unilever exported Sunlight soap to India. Three Indian subsidiaries came into existence in the period 1931–35 that merged to form Hindustan Lever in 1956. Mergers and acquisitions of the Lipton (1972), Brooke Bond (1984), Ponds (1986), Tata Oil Mills Company (TOMCO (1993)), Lakme (1998), and Modern Foods (2002) have resulted in an organisation that is a conglomerate of several businesses that have been continually restructured over the years.

The Hindustan Unilever Ltd. developed its business strategy document in 2009. It is called 'the Compass' and it defines the vision and purpose. The vision is to double the size of the business while reducing environmental footprint by half, increasing social impact, and building a sustainable business for the long-term. The Compass has four core elements: winning with brands and innovation; winning in the marketplace; winning through continuous improvement; and winning with people. In 2010, the Unilever Sustainable Living Plan was launched in India. This plan makes Unilever a major global corporation embedding sustainability into its strategies.

The Sustainable Living Plan has three major goals with nine components as is seen in the following list. Each of the components is supported by targets in social, environmental, and economic performance:

1. Improving health and well-being
   (a) Improving health and hygiene
   (b) Improving nutrition
2. Reducing environmental impact
   (a) Reducing greenhouse gases
   (b) Reducing water use
   (c) Reduce waste and packaging
   (d) Sustainable sourcing
3. Enhancing livelihoods
   (a) Fairness in the workplace
   (b) Opportunities for women
   (c) Inclusive business

There is a sustained attempt at HUL to incorporate the components of its sustainability plan into brands. For example, oral health programmes are supported to encourage children to get into the habit of brushing teeth with its Signal and Close-up toothpastes. Health is promoted by washing hands regularly by Lifebuoy. Reducing water and energy consumption is encouraged through the use of its laundry products like Surf.

The Hindustan Unilever Ltd. takes its stakeholders seriously making great efforts to get to the rural customers in the vast geography that India is. Its *Shakti* project reaches inaccessible rural areas through creating business potential among women self-help groups in an innovative example of creating an appropriate distribution network. Besides encouraging women to be partners in the supply chain, they are also encouraged in employment with efforts at creating a gender-balanced organisation. The goal of inclusive business is sought to be attained through improving the livelihoods of smallholder farmers, augmenting incomes of small-scale retailers, and increasing the participation of young entrepreneurs. For example, tomato supply for its sauce is sourced from marginal farmers in Maharashtra thereby promoting best practices for growing high-yielding varieties and providing them with agricultural inputs.

The Hindustan Unilever Ltd. sustainability plan is subjected to systematic evaluation through the means of non-financial measures such as reduction of carbon dioxide in manufacturing and reduction in use of water and waste per tonne of production. It does so simultaneously with good performance of financial parameters such as gross sales and profit after tax.

Corporate governance is ensured by having a good mix of executive and independent directors on the board. In 2014, it had four independent directors besides four executive directors including the chairman of the board. It has the required transparency and accountability mechanisms like having a code of business principles and having board committees such as audit committee and nominations and remuneration committee.

There is criticism of HUL as well as its parent Unilever. For instance, critics suggest that it is impossible for a corporation as large and widespread as Unilever to quantify the carbon cost of manufacturing let alone its consumption and disposal. Unilever has been accused of hypocrisy in its advertising of beauty products and targeting vulnerable women and children by clever positioning of its Project Sunlight. Some experts also doubt Unilever's intention by pointing out that a major part of its revenue is likely to come from developing countries where it might be creating needs and encouraging aping the consumption patterns of the West. Involvement with supply chain is also criticised as attempt to HUL to control supplies to its advantage. The Hindustan Unilever Ltd. is also seen in a weakening position as a Unilever subsidiary increasingly centrally managed from the headquarters rather than depending on local initiatives especially in branding of products.[1]

Organisations, such as HUL, are attempting to embed sustainability into their strategies. They do it in many different ways as we see in the preview case. The Hindustan Unilever Ltd. has a comprehensive plan for sustainability. This is important as it is a reflection of the commitment of the organisation to sustainability. The Hindustan Unilever Ltd. makes special efforts to align its brands with sustainability as it is a FMCG company. As we learn about sustainability actions of organisations we should also be aware that this is an issue which is high contemporary significance. This chapter is devoted to discussing how strategic management can contribute to sustainability. In doing so, we have a number of issues under discussion ranging from corporate sustainability, stakeholders' management, corporate governance, corporate social responsibility and personal values, and business ethics. As you can observe, all these issues are very important to organisations.

Strategic intent lays down the framework of objectives that the organisation would seek to achieve through strategic management. A major role of objectives is that they identify the role of the organisation with its environment. The objectives that the organisation strives to achieve are primarily economic in nature such as profit. However, we now understand that any organisation is embedded in its environment and thus would have to have objectives that go beyond profit maximisation. Rather than satisfying just stockholders, organisations need to satisfy a range of stakeholders. Concern for natural environment is becoming a pivotal issue for organisations.

The concern for natural environment has attained global and national importance owing to a variety of reasons. Industrial activity usually contributes to environmental degradation affecting the biodiversity of a region. Overuse and misuse of the basic life-support systems and natural resources like air, land, water, flora and fauna, and non-renewable sources such as oil and natural gas are cited as major factors leading to environmental and ecological degradation. The Indian public awareness has also heightened considerably with controversies regarding man-made disasters such as the Bhopal Gas Tragedy of 1984, the consequences of Sardar Sarovar and Narmada Sagar dam projects, and the relocation of polluting industrial units outside the urban periphery. Natural disasters of cyclones, epidemics, famines, and tsunamis too have been blamed on environmental degradation. Besides this specific events, environmental degradation works—like a silent killer in so many ways—such as air, noise, and water pollution, desertification, droughts, earthquakes, floods, forest fires, gas leaks, oil spills, and groundwater contamination. The government and society have been responding to these concerns through legislation and voluntary action.

Managers need to not only comply with laws, rules, and regulations but also apply their individual discretion on the basis of their personal values. This chapter is a broad sweep over the relevant issues that strategic management has to deal with in terms of setting a more realistic and justifiable strategic intent. We start with an introduction to sustainability and strategic management.

3.1 CORPORATE SUSTAINABILITY FOR STRATEGIC MANAGEMENT LO 1

For over six decades now, there has been an intense debate over the idea of sustainability. It is an expansive issue including a wide range of concerns that are economic, environmental, and social in nature. The present, and quite a popular, definition of sustainability is summed up in the key idea of sustainable development that is expressed as: "to meet the current needs without destroying the ability of future generations to meet theirs." This idea was proposed in 1987, by the United Nations' World Commission of Environment and Development popularly called the Brundtland Commission and published in the book *Our Common Future*.

Sustainability is the responsibility of everyone including the organisations involved in business. In fact, many observers feel that business organisations should take up greater responsibility. This is due to their increasing importance and rising economic power making it imperative for them to shoulder greater responsibility for sustainability than governments and other types of organisations do. Sustainability is a wider concept but when applied in the context of organisations, corporate sustainability implies the challenge to simultaneously improve social and human welfare while reducing the ecological impact of organisations and ensuring the effective achievement of organisational objectives.[2] A definition of corporate sustainability in the light of the Brundtland Commission's idea of sustainable development is stated as "meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities, etc.) without compromising its ability to meet the needs of future stakeholders as well.[3]

Profit Maximisation versus Sustainability

Sustainability rests on the understanding of the inherent tension between two apparently opposing viewpoints. The first viewpoint is of short-term profit maximisation that has guided economics since long. Organisations aim at profit maximisation by applying strategic management which is considered as the process to enable them to achieve their objectives primarily of attaining higher profitability. The second viewpoint is of long-term sustainability where organisations aim at optimising profit in such a way that they do not cause harm to the natural environment and leave it in a shape that would continue to be useful to the coming generations. This is sought to be done through what has come to be called sustainable strategic management.

Managers in organisations are responding to the idea of balanced growth by taking up sustainability issues. They are doing so not only by accepting sustainability issues as an ethical responsibility but also considering them as necessary to the survival and growth of their organisations. Worldwide, we have some of the largest and more profitable organisations such as the Bharat Petroleum (BP), Shell, Ford and Toyota that have adopted sustainability as the basis for strategic management of their organisations. In India there are many organisations both in the private and public sector such as the Bharat Petroleum Corporation Ltd. (BPCL), Larsen & Toubro (L&T), Steel Authority of India Ltd. (SAIL), Oil and Natural Gases Corporation (ONGC), Coal India, Tata Motors, Infosys, and several others that have adopted sustainability issues in their strategic management.

Triple Bottom Line

The balancing of different aims of profitability with sustainability can be done through the adoption of the principles of triple bottom line. These principles underline the philosophy that an organisation's responsibility is towards all its stakeholders rather than only shareholders. The triple bottom line, a term coined in 1998 by John Elkington, consists of aiming to achieve results for people, planet, and profit. By *people* is referred the social sustainability under which the aims of the organisation are to adopt fair and beneficial policies towards all people who come under its sphere of influence such as employees, customers, and communities. By *planet* is meant the natural environment in which we exist and includes the earth, water, air, plants, and animals. An organisation should adopt sustainable environmental practices that benefit rather than harm the natural environment. It does this by several actions such as reducing its consumption of non-renewable natural resources, reducing wastage created by its operations, and bearing the cost of environmental protection. By *profit* is meant the economic objectives of the organisations that results after deducting all costs it incurs. By balancing achievement in the three areas of people, planet, and profit organisations try to achieve balanced growth. Sometimes the idea of triple bottom line is also expressed as the objectives of organisations set in the areas of three 'Es' of environment, equity, and economics. Many Indian companies, both in the public and private sectors, now adopt the triple bottom line method of reporting their performance in their annual reports including key parameters on all the three components of the triple bottom line.[4] The government plays a facilitating role. The Ministry of Corporate Affairs of the Government of India came out with the national voluntary guidelines for social, environmental, and economic responsibilities of business that suggests a model business reporting framework.[5]

Three Types of Capital

Economists and financial analysts have created different categories of capital to facilitate clarity in terminology, ease of analysis, and reporting. Corporate sustainability requires a broader perspective to capital than financial alone. From the sustainability perspective, akin to the triple bottom line, there are three types of capital: social, natural, and economic.

Social capital is the outcome of stability in society that arises when there is safety and security for people, an effective educational system, a caring and affordable healthcare system, effective governance, and fair distribution of wealth. The presence of all these enabling conditions creates social environment that is conducive to mutual understanding, trust, and cooperation among members of the society. Social capital also consists of human capital within organisations that means skill and expertise of employees, their motivation, commitment, and loyalty. Organisations contribute to social capital by paying taxes to the government and performing various beneficial activities that enrich the social fabric. They also enrich their human capital by judicious human resource management and creating opportunities for the development and growth of their employees.

Natural capital is continued availability of fresh air, clean water, stable climate, renewable energy sources and sustainable ecosystems that enable the economy to survive and prosper. Organisations contribute to the natural capital by playing their role in conserving and preserving the natural environment, eliminating wastage and pollution, and bearing the cost of environmental destruction caused by their activities.

Economic capital is the most commonly understood form of capital as it is expressed in terms of money but actually it includes both financial and physical assets as well as intangible assets such as reputation and knowhow. Organisations assume the responsibility for creating economic capital by operating profitably, rewarding their shareholders handsomely, and at the same time creating surplus to reinvest into future growth and expansion.

Sustainable Strategic Management

Traditionally, strategic management is seen as the process through which an organisation tries to achieve its strategic intent. Such intent has usually been seen as economic and financial in nature. Thus, profitability based on efficient marketing activities leading to creation of competitive advantage that is sustainable over a long period is the major objective of organisations.

Current thought, however, does not limit organisational objectives solely to short-term profitability but sustainable profitability that depends on simultaneous achievement of market sustainability as well as environmental sustainability—an issue we discussed above under the caption of profit maximisation and sustainability. Market sustainability deals with being profitable and continuing to remain profitable under varying conditions of competition outside the organisation. Environmental sustainability deals with an organisation being successful over the long-term while paying due attention to the natural environment.

Parnell defines sustainable strategic management as "the strategies and related processes associated with the continuity of superior performance—broadly defined—from both market and environmental perspectives."[6] The simultaneous consideration of market and environmental perspectives is central to the idea of sustainable strategic management. An organisation that achieves one at the expense of the other does a half-hearted job and does not remain sustainable over the long-term.

A sustainable corporate strategy is one that attempts to integrate the principles of sustainability into the core business strategy of the organisation. These principles of sustainability include a longer term and wider outlook on value creation rather than a short-term focus on profit maximisation. These principles also acknowledge the ecological limits imposed on organisations and a commitment to social advancement. Organisations that recognise that sustainability is at the core of business strategy, rather than an add-on, are more likely to anticipate and innovate around future change.

There is increasing evidence on the critical role of leadership in enabling or inhibiting the integration of sustainability principles into business objectives and activities. Chief executive officers (CEOs) specifically play an important role in setting an organisation's vision and they carry a tremendous responsibility for its success. We will be looking at these issues in the subsequent chapters. Companies making real and transformative progress towards realising sustainable strategies are often differentiated by CEOs who genuinely internalise the importance of sustainable development.

Bringing the different issues discussed in this section to a close we would now conclude with a brief reference to the approach that organisations could use to make their traditional thinking to strategic management change to sustainable strategic management. This could be done by integrating sustainability into the process of strategic management.[7] The vision, mission, and objectives of the organisation should reflect a clear commitment to sustainability. Strategic decision-making should include the dimension of sustainability. Environmental appraisal should be extended to cover the natural environment besides the analyses of other sectors of the environment. Corporate and business strategies need to take into account sustainability of products and markets. Strategic analysis and choice would need to be done including the sustainability perspective so that the resulting strategies are compatible with the broader objectives of the organisation. The implementation of the strategies would be complete only if the sustainability is taken care of. For instance, sustainability initiatives would be successful only if leadership and organisational culture support them.

Further, in this chapter, we would take up the other aspects that are central to sustainability and strategic management. These aspects would be related to stakeholder management, corporate governance, corporate social responsibility, and personal values and business ethics. These are all enabling conditions to the central task of making an organisation sustainable over the long-term.

3.2 STAKEHOLDERS' MANAGEMENT AND STRATEGIC MANAGEMENT **LO 2**

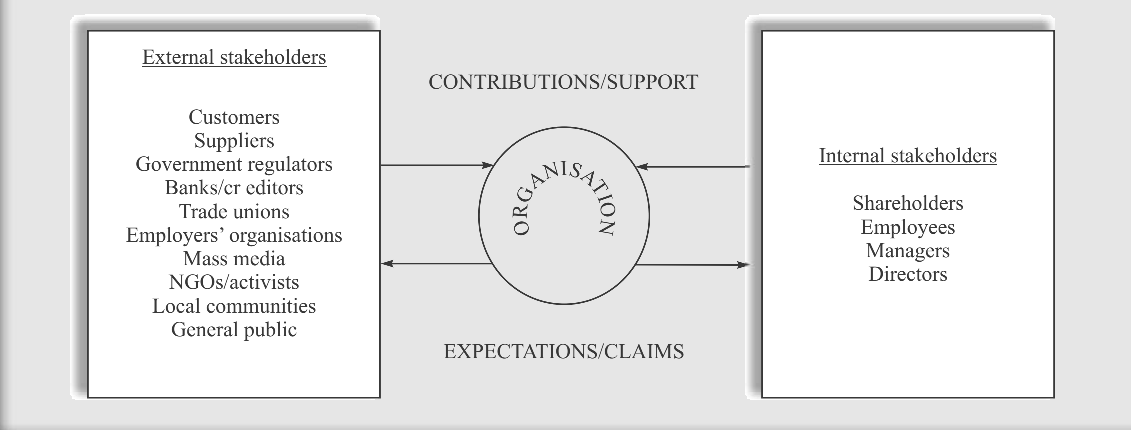
Stakeholders' are the individuals and groups who can affect, and are affected by, the strategic outcomes achieved and who have enforceable claims on a firm's performance. Stakeholders can support sustainable strategic management of an organisation. They could also withhold participation essential for sustainable strategic management of an organisation. At the extreme they could oppose the top management of an organisation in strategy formulation and implementation. Organisations that can effectively manage stakeholder relationships generally outperform those that do not.[9] Managing stakeholder relationships, therefore, is critical for strategic management of an organisation.

Stakeholders' Relationship Management

Stakeholders can be divided into internal and external stakeholders as shown in Exhibit 3.1.

- Internal stakeholders such as shareholders / owners, managers, or employees
- External stakeholders such as customers, suppliers, or government

Exhibit 3.1 The Organisation-stakeholder Relationship



The stakeholders' association with the organisation is a two-way relationship. Stakeholders provide support to the organisation and contribute in many different ways. In return, the organisation tries to satisfy the expectations of the stakeholders and honour their legitimate claims. External stakeholders such as customers pay the price for the products and services, suppliers provide materials, creditors grant finance, and government offers support through legislation and regulation and so on. Internal stakeholders such as shareholders buy shares, employees provide skills and labour, managers undertake decision-making, and directors offer guidance and supervision to the organisation's managers. In return, the stakeholders have expectations and claims. An external stakeholder like a customer will expect good quality and fair dealing and claim value for her money. The Government will expect that the organisation pays taxes and follows the rules and regulations. An internal stakeholder like the shareholder will expect effective performance of the organisation and claim high returns on their investments. Employees will expect fair dealing from their employing organisation and claim compensation in terms of salary and wages.

As you might have noticed while reading the above matter, the nature of expectations and claims of different types of stakeholders are diverse. Some stakeholders desire to receive monetary compensation while others expect non-monetary return such as quality of product or compliance. Employees expect to get a good salary while customers expect value for their money. Government expects corporate taxes while directors expect compliance with their directions. Besides the diversity of stakeholders' expectations and claims, organisations also realise that all stakeholders are not equally important to them. Further, managers need to understand that different stakeholders not only have diverse expectations and claims but these may also vary over a period of time under different conditions. For instance, customers expect better quality when they are getting that level of quality at the same price from competitors. Different industries also have different configurations of stakeholders vying for an organisation's attention. For example, polluting industries such as oil and gas or chemical processing may have to take special care of the environmental protection agencies and activists while advertising agencies or banks need not bother about them as much. Even within an industry, as conditions change, the demands of customers on organisations too may alter. With the growing importance of environmental issues, for instance, all organisations need to give greater importance to stakeholders dealing with environmental protection. All this complexity in the relationship between the organisations and their stakeholders creates the need for analysing the relative importance of stakeholders so that the organisation can effectively manage its relationship with them. In other words, organisations need to know how important a stakeholder is relative to other stakeholders at a given time so that it can pay commensurate attention to its expectations and claims.

Stakeholders' Analysis

As we saw in the earlier section, the stakeholders' association with the organisation is a two-way relationship. Stakeholders provide support to the organisation and contribute in many different ways. In return, the organisation tries to satisfy the expectations of the stakeholders and honour their legitimate claims. In the Indian context, if we visualise the importance of the government and its regulatory agencies to an organisation we would find that generally the government is considered as a highly important stakeholder since it has power to influence, has interest, and holds legitimacy. On the contrary, in some cases, a stakeholder such as social activists or media might have less power, high interest, and limited legitimacy. Thus, in comparison to the government, an organisation may prioritise the social activist agency as having a lower priority at a given time. Consequently, the level of priority will determine how the organisation engages the stakeholder in the affairs of the organisation.

Another reason for creating prioritisation is the limitation on the ability of an organisation to satisfy its stakeholders. Realistically, it is not possible to satisfy all stakeholders equally. Often, the expectations and claims of the stakeholders are at variance. Employees, through their unions, may expect and claim higher wages. At the same time, customers may have expectations and claims on the organisation to provide better quality products at lower prices. The shareholders have expectations and claims of receiving higher returns on their investment. All these expectations and claims of the stakeholders make a demand on the limited financial resources available to the organisation. The organisation will have to make a trade-off by assigning priority to the stakeholders in terms of their power, interest, and legitimacy.

Stakeholder relationship management requires that stakeholder analysis be done to identify the relative importance of various stakeholders and to ensure that the claims of the more important stakeholders are satisfied first. Usually, the stakeholder analysis is guided by the following steps:

- Identify the stakeholders
- Identify the stakeholders' expectations, interests and concerns
- Identify the claims stakeholders are likely to make on the organisation
- Identify the stakeholders who are more important from the organisation's perspective
- Identify the strategic challenges involved in managing the stakeholder relationship

A simple template such as one shown in Exhibit 3.2 can be prepared to show the results of stakeholders' analysis at a glance. The process of creating the graphical illustration of stakeholders' analysis is called stakeholders' mapping. There are many different versions of stakeholders' mapping available in literature.[11]

Exhibit 3.2 Stakeholders' Analysis Map

		Power of the stakeholder over strategic decision			
		Unknown	Little/no power	Moderate degree of power	Significant power
Effect of strategy on the stakeholder	Unknown				
	Little or no effect				
	Moderate effect				
	Significant effect				

Source: Adapted from R.E. Freeman: *Strategic Management: A Stakeholder Approach* (Boston, M.A.: Pitman, 1984).

Stakeholders' analysis is basically for the purpose of analysing the dispositions of various stakeholders on the basis of their expectations and claims in order to prioritise them in terms of their value to the organisation. The value of stakeholders to the organisation is assessed, for instance, in terms of the intensity and quality of their support or opposition to strategy formulation. The more intense and wholesome the support or opposition of a particular stakeholder, the more important that stakeholder is to the organisation. The prioritisation of the stakeholders helps the organisation in devising engagement tactics so that the stakeholders' expectations can be fulfilled and the claims satisfied in an optimal manner.

Engagement Tactics for Stakeholders

The process of fostering an effective relationship with the stakeholders is termed as stakeholders' engagement and is the most critical part of stakeholders' relationship management. An effective relationship includes many elements such as direct and indirect support of the stakeholder in organisational affairs particularly in matters of strategy formulation, participation of the stakeholder where necessary or desirable in strategy implementation, and playing an effective role in helping the organisation evaluate the effectiveness of its strategies.

Unilever claims that engaging with stakeholders is vital to its business. On its website is mentioned: "Engaging with stakeholders is essential in building our reputation, developing long-term relationships and helping to understand stakeholder concerns and expectations. It informs our decision-making, strengthens our relationships and helps us deliver our commitments and succeed as a business."[12] At the global level, they engage with a variety of stakeholders through agencies such as the United Nations Global Compact (UNGC), the World Economic Forum (WEF), and the World Business Council for Sustainable Development (WBCSD). At the country level they claim to participate in activities in the areas of safety and environmental impact, sustainable sourcing, and nutrition.

In a situation where the organisation is doing well and is highly profitable, the challenge of effectively managing stakeholder relationships is lessened substantially. Higher profitability creates capability and flexibility for the organisation in satisfying multiple stakeholders simultaneously. When the organisation earns only average returns, the capability and flexibility of the organisation is reduced.[13] The objective in such a situation may have to be changed to satisfy each stakeholder minimally or to create priority and engage more important stakeholders and neglect the less important ones. When the organisation is not doing well it does not have the capacity and flexibility to satisfy its stakeholders even minimally. In such a case, the challenge in stakeholder management is not gaining support but attempting to minimise the loss of support from stakeholders.

There are a range of engagement tactics available to organisations to attract the interest of stakeholders and sustain it over time. Some large organisations have specific departments and personnel such as corporate communications or public relations assigned to this task. The range of activities used for engagement include disseminating information on the website and through other traditional means such as newsletters, posters, participation in public events, exhibitions, arrangement of corporate events such as seminars and conferences, and the like. Digitisation has created opportunities for using stakeholder relationship management software for the purpose of dealing with the complexities and taking decisions. An example of such software is Wipro's stakeholder relationship management programme for healthcare organisations that claims to incorporate customer relationship management software for effective doctor-patient relationship, internal coordination within healthcare organisations, patient outreach, and decision support for effective service delivery.[14]

The value of open and honest communication and transparency in dealings with the stakeholders, building trust, and engaging in activities designed to foster cooperation are crucial for the success of engagement tactics. A superficial public relations exercise designed to give false assurances to stakeholders may not help and even harm the interests of the organisation in the long-run. Similarly, an impressive corporate website that makes tall claims not backed up by good organisation does not fool the public for a long time.

The role of the top management of the organisation and particularly the chief executive is extremely important in stakeholders' relationship management. A pertinent example of the importance of the role of top management is seen in the case of the late Dhirubhai Ambani's engagement tactics of involving the small investors in Reliance's equity investments. He is credited with creating the cult of equity in India as a result of which Reliance had more than 18 lakh investors plus many more who invested in mutual funds having a stake in Reliance group's companies.[15] Dhirubhai Ambani came up with the innovation of directly addressing the large investor community in company general body meetings held in open stadia. Hitherto, company annual general body meetings were only held in closed-door offices or hotel auditoria. This is an instance of an organisation raising the level of importance of the investor as a stakeholder. No wonder, Reliance's capability of raising equity finance gave it the competitive advantage of low-cost funds for its various projects.

Stakeholders' relationship management and engaging stakeholders is crucial in the special case of non-governmental organisations (NGOs) as they are dependent on grants and funds from external sources. For such organisations, relationships with donors are based on trust and transparency. Generating trust is a long-term process consisting of several types of continuing engagement tactics such as open communication, inviting participation, and providing feedback to the donors. Likewise, NGOs need to take special care of the local communities that they serve as these constitute one of their most important stakeholders. The means for engagement could include involvement in setting project objectives and the means to achieve them, continual dialogue during implementation, and transparency in feedback.

Among all the stakeholders of the organisations, probably the relationship between the shareholders, the directors on the board, and the managers of the organisation occupies the central position. We deal with various aspects of this facet of stakeholders' relationship in the next section.

3.3 CORPORATE GOVERNANCE AND STRATEGIC MANAGEMENT **LO 3**

The management of relationship between the directors and managers and the other stakeholders of the organisation is called corporate governance. The relationship between the stakeholders and the managers of the organisation is called an agency relationship and is explained by an influential theory in financial economics called the agency theory that was developed in the 1970s.[16] Another theory that explains the stakeholders' relationship is the stewardship theory. We will first look at the agency and stewardship theories and then come to corporate governance in this section of the chapter.

Agency Theory and Stewardship Theory

In general, when a person delegates decision-making authority to another an agency relationship is created. The person delegating the authority is called the principal and the person to whom the authority is delegated is the agent. The relationship between the principal and agent is agency relationship. In the context of stakeholder management, we can find a similar relationship existing between the owners or shareholders of the organisation who are the principals and the managers of the organisation who are the agents. The owners provide risk capital to the organisation and delegate the authority to the managers to use that capital to manage the organisation on their behalf acting as their agents. So long as managers act in the interests of the owners, there is no conflict of interest. On occasions when managers do not act in the interests of the owners a conflict of interest is created. This is known as the agency problem. The solution to the agency problem is to have corporate governance mechanisms designed to exercise control and place restraints on the behaviour of managers so that they are required to act in the interests of the owners. Similar to the owners, who are the shareholders of the organisation, there are other stakeholders like employees or customers too whose interests may not be served rightly by the managers of the organisation. The tenets of the agency theory would be applied in the same way to explain the behaviour of all the stakeholders.

The agency theory is quite a popular theory, especially in American texts, yet it has its critics. One of the main criticisms is that the theory assumes managers to be self-centred and irresponsible causing them to act in a prejudicial manner against the interests of the owners. This might actually not be true in all situations.

An alternative approach to explaining the relationship between the owners and managers of the organisation is called the stewardship theory.[17] This theory takes a positive view of the managers considering them as 'stewards' whose interests are aligned with that of the owners. These managers identify with their organisations and derive satisfaction from behaviours that support the organisational interests rather than their own. Stewardship theory, in contrast to the agency theory, proposes corporate governance mechanisms that support and empower the managers' behaviours rather than monitor and control them.

Having looked at managerial behaviour from the perspectives of two theories let us now turn our attention to corporate governance.

Corporate Governance

In recent times, corporate governance has become an issue of global significance. The crisis of confidence created by the failure of several large corporations in various countries of the world including Adelphia, Arthur Anderson, Enron, Parmalat, Tyco, Global Crossing, Satyam, and World.com served to heighten the interest in corporate governance. Globally there has been much concern about the biased and, sometimes, outright unethical practices adopted by publicly-held companies. The UK, Cadbury Committee (1992) in United Kingdom and the Hampel Committee (1998) of the European Corporate Governance Institute have gone into the various aspects, specially, the financial matters related to the governance of companies by its board. The reports prepared by these committees generated a lot of interest worldwide including India. The happenings in leading companies in India such as the Indian Tobacco Company (ITC) and Shaw Wallace also led to a heightened awareness about corporate governance in India.[18] Several business groups, among them, notably, the Tata group of companies evolved a code of ethics. The Confederation of Indian Industry (CII), under the chairmanship of Rahul Bajaj in April 1997, devised a code of desirable corporate governance. Several committees followed in quick succession: Kumar Mangalam Birla Committee on Corporate Governance (1999), Naresh Chandra Committee on Corporate Audit and Governance (2002), and the Narayana Murthy SEBI Committee on Corporate Governance (2003). Companies Act, 2013, has several provisions such as the composition and functions of the board of directors, appointment of independent directors, their performance evaluation and code of conduct, etc. aimed at strengthening the corporate governance of companies. A major fillip was provided to corporate governance practices by the setting up the National Foundation for Corporate Governance (NFCG) in India. The NFCG was set up by the Ministry of Corporate Affairs of the Government of India in partnership with the CII, the Institute of Company Secretaries of India (ICSI), and the Institute of Chartered Accountants of India (ICAI).

Being a subject of topical significance and wide concern, there are many definitions of corporate governance available. The definition adopted by the NFCG states that, in a narrow sense, "corporate governance involves a set of relationship amongst the company's management, its board of directors, shareholders and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined." In a broader sense, corporate governance is "the extent to which companies are run in an open and honest manner."

The key aspects of good corporate governance, according to the NFCG, include:[19]

- transparency of corporate structures and operations;
- the accountability of managers and the boards to shareholders; and
- corporate responsibility towards employees, creditors, suppliers, and local communities where the corporation operates.

According to a study on corporate governance and firm performance in India, the system of corporate governance in India is typically a hybrid of the Anglo-Saxon governance system prevalent in the US and the UK and the bank dominated systems prevalent in Germany and Japan. A key feature, which distinguishes Indian companies from their counterparts in the developed world, is the high leverage of Indian companies—there is higher reliance on external sources of financing. Banks and financial institutions in India are both lenders as well as equity participants in Indian companies.[20]

The corporate governance mechanisms in India include both mandatory and voluntary regulations. The major legislations having provisions related to corporate governance are: The Companies Act, 2013; The Securities Contract (Regulations) Act, 1956, and The Securities Contracts (Regulation) Amendment Act, 2007; The Securities and Exchange Board of India Act, 1992; and The Depositories Act, 1996. Besides there is the listing agreements with stock exchanges that define the rules, processes, and disclosures that companies must follow to remain as listed entities. A key element of this is Clause 49, which states the corporate governance practices that listed companies must follow. If you see the annual report of any listed public company, you will find the information disclosed by them. These include the major share ownership and rights, information about the directors and top executives including their remuneration, and corporate governance structures and policies being implemented. Many organisations go beyond the mandatory requirement and adopt self-imposed code of conduct and disclose more information than required under the law to enhance transparency in their operations.

An independent and professional agency called the Investment Information and Credit Rating Agency (ICRA) provides ratings on corporate governance of Indian companies based on variables such as shareholding structure, executive management processes, stakeholder relationship, transparency and disclosures, and financial discipline.[21] The Bombay Stock Exchange is also reported to be planning to introduce a corporate governance index.[22]

The burgeoning literature on corporate governance and practices around the world suggest several mechanisms that are used to ensure good corporate governance. Among these are organisational mechanisms such as:

- having an effective board of directors
- fostering transparency through disclosure of information related to the organisation's financial and operational performance
- framing code of governance and committing the organisation to its implementation
- designing sound internal control systems
- instituting effective auditing and evaluation systems within the organisation

- having proper risk management procedures in place
- encouraging whistle-blowing policies within organisation
- designing fair compensation policies for managers

Corporate governance is not solely an organisational matter. The other stakeholders, apart from the managers and employees of the organisation, too have a role to play. The Government needs to frame appropriate policies and procedures to regulate the ethical behaviour of organisations. Shareholders, especially small investors, need to be conscious of their rights and responsibilities. Mass media needs to be vigilant in reporting on corporate matters of interest to the general public.

The term 'corporate governance' does not mean that it is applicable only to industrial corporations. All types of organisations whether they are government departments, public utilities, service providers such as banks and insurance companies, NGOs, cooperatives and educational institutions need effective corporate governance.

Corporate governance is a newsworthy issue in the world presently. Within India too, it is a topical issue and much practice but little research is being reported. Till a few years ago, the research on corporate governance was scanty possibly owing to the opaque disclosure practices followed by the corporate sector in India.[23] But that may not be the situation now. For instance, several research projects have been done under the aegis of the NFCG listed on its website. The general opinion regarding the future scenario is that it is likely that with increasing need for low-cost finance, sophistication in management of stock exchanges, awareness of investors, use of information technology, competition in the markets, internationalisation of organisations, and progressive government regulation the corporate governance of Indian organisations will keep on improving. There is a call to embed sustainability into corporate governance as well as into the functioning of the senior management of organisations.[24]

Next, we take up the role of board of directors in strategic management as boards constitute one of the important constituents of structure of corporate governance.

Board of Directors and Strategic Management

The ultimate legal authority of an organisation vests in the board of directors. The owners of the organisation—shareholders, controlling agencies, government, financial institutions, holding company or the parent company—elect and appoint the directors on the board. The board is responsible to them for the governance of the organisation. As directors, the members of the board, are responsible for providing guidance and establishing the directives according to which the managers of the organisation can operate. The board exercises the authority according to the memorandum of association and articles of association of the company. Legally, they have to conform to the various provisions of the Companies Act, 2013. Apart from the legal framework, the board acts according to the policies, rules, procedures, and conventions of the organisation. The board can appoint committees to look into specific areas and that are delegated authority to take decisions and make recommendations to the board. There are many types of committees of the board depending on the needs and preferences of the organisation such as the committees for audit, remuneration, nomination, shareholders' and investors' grievance, ethics and compliance, and risk management.

In theory, the functions of the board are defined in many different ways. For instance, Garrat defines the function of the board as a collective responsibility to:[25]

- determine the company's purpose and ethics;
- decide the direction, that is, the strategy;
- plan, monitor and control managers and CEO; and
- report and make recommendations to shareholders.

Almost all the functions mentioned above are strategic in nature. In practice, however, there is a wide difference among the roles played by the board in various types of organisations. These differences may arise due to the ownership patterns in public and private sector companies. Even within these sectors, there might be variations. Private sector companies which are family-owned differ from multinationals. Further, professionally managed, family-owned companies may differ from family-managed, family-owned concerns.

By definition, the board is only required to direct. But many operational matters of vital significance like technology collaborations, new product development, senior management appointments, etc. may also be referred to the board. The directing functions of the board have certain formal and informal components. Formally the board is involved in reviewing and screening executive decisions in the light of their environmental, business, and organisational implications. It is here that the board can play a very significant role in terms of corporate sustainability by ensuring that the organisation works for the benefit of the natural environment and does not follow a path that may cause harm to it. Informally, the board seeks to direct the organisation's activities so that they are in concordance with the prevailing social, economic, and political milieu. Because the board is considered as a vital link between the environment and the organisation, it usually does not concern itself with operational decision-making.

The board of directors are generally organised into several committees. For instance, there might be an audit committee that may look after the responsibility of selecting the external, independent auditor and reviewing the reports from that auditor. Then there might be a compensation committee to set the remuneration of the top executives. The involvement of the board in such high-level committee is to ensure that the directors are involved directly in matter that are related to the monitoring of the organisation's performance, advising the managers on matters of strategic importance to the organisation, and setting realistic remuneration for the top executives.

The role of the board in strategic management is to guide the senior management in setting and accomplishing objectives, reviewing, and evaluating organisational performance and appointing senior executives. The function of the board is usually seen in terms of setting the strategic direction which involves establishing objectives and strategy and subsequently monitoring and reviewing achievement.[27] However, there is no clarity regarding the exact roles that the board should play in managing the affairs of the organisation or specifically its strategic management. Much depends on the relative strength, in terms of power, held by the board members and the chief executive and the tenor of relationship between them. Where there is a high level of clarity regarding their respective roles, the relationship between the board members and the chief executive is cordial and the functioning of the board is smooth. Where such clarity is less, problems occur. The effectiveness of the board of directors is of crucial importance to effective corporate governance of an organisation. With regard to corporate sustainability, the role of the board begins right at the beginning with oversight and commitment and follows through into management systems and processes that integrate sustainability into day-to-day decision-making.

Relating Corporate Governance to Strategic Management

If we consider the NFCG definition of corporate governance or other similar definitions, we can observe that there is a clear relationship of corporate governance of an organisation with stakeholder management as well as its strategic management. Corporate governance is the governance of an organisation that deals with the relationship of different stakeholders particularly among three of them: the shareholders or owners of the organisation, the directors on the board, and the managers. At a broader level, corporate governance is concerned with the behaviour of the three major stakeholders towards each other as well as to the affairs of the organisation.

Based on the model of strategic management used in this book we can discuss the linkages between corporate governance to strategic management of an organisation.

- *Corporate governance and strategic intent:* The strategic intent of the organisation deals with its vision and mission, business definition, business model, and objectives. Corporate governance plays an important role in each of these aspects. The vision and mission of the organisation deal with its aspirations and purpose respectively. These aspirations and purpose have to be in line with the intentions of the stakeholders. Corporate governance helps in streamlining the possible variances in the aspirations and purpose as visualised by different stakeholders. Effective corporate governance would also mean that the organisation takes into account the long-term sustainability issues and warn the managers of the organisation if they tilt too much towards short-term financial objectives. Further, if the directors have a particular perception of the future of the organisation that perception has to match with that of the managers if the organisation has to be effective. So also is the case with the purpose of the organisation. If the stakeholders of the organisation differ on their perception of the purpose of the organisation it can create difficulties for the strategic management of the organisation. Similarly, the stakeholders have to evolve a consensus on the business definition, business model, and the objectives of the organisation. Corporate governance, through its various mechanisms, helps the stakeholders to develop consensus through a process of mutual understanding and compromise.

- *Corporate governance and strategy formulation:* Deciding on the specific corporate and business strategies of the organisation is the responsibility of the top management of an organisation. In this task, they need to follow the guidance provided by the board of directors as well as keep the objectives that the strategies are designed to achieve in view. Shareholders as stakeholders are typically interested in gaining higher returns on their investment. This should be reflected in the choice of the strategies. Those strategies that are designed to achieve higher returns would be in favour of the shareholders. Managers on the contrary might be interested in strategies that are designed to create stable long-term employment, increase their decision-making authority, or provide them higher job satisfaction. Corporate governance mechanisms are needed to reconcile the differences in the goals that shareholders and managers try to achieve.
- *Corporate governance and strategy implementation:* The arena of strategy implementation is almost fully under the control of the managers of the organisation. The board of directors or the shareholders have little say or scope for direct intervention. Yet, strategy implementation determines whether the strategies formulated achieve desired level of success. There is a danger that managers might deviate in strategy implementation from what they committed during the strategy formulation process. Again, the corporate governance mechanisms need to be in place to ensure that such deviation from commitments does not occur.
- *Corporate governance and strategy evaluation:* In the last phase of strategic management, corporate governance comes to the fore. The shareholders and directors have an effective role to play in helping the organisation evaluate the effectiveness of its strategies. This is done by the means of operational and strategic controls. Boards of directors need to ensure that the organisation's objectives are achieved and that the achievement is reflected in the results that the organisation accomplishes. Corporate governance mechanisms such as reporting the annual performance of the organisation help the shareholders to evaluate whether the organisation is on the right path. The board of directors provide continual guidance as well as monitoring of the performance and behaviour of the organisation.

As we can observe from the discussion, corporate governance is closely connected to the strategic management of an organisation. According to the NFCG definition of corporate governance, in broader sense, it is concerned with the extent to which organisations are managed in an open and honest manner. The corporate governance mechanisms are designed to create conditions that support the stakeholders of an organisation being managed in an open and honest manner.

3.4 CORPORATE SOCIAL RESPONSIBILITY AND STRATEGIC MANAGEMENT LO 4

Strategic planning, through environmental and organisational appraisals, provides answers to what an organisation *might* and *can do*. Personal values justify what an organisation *wants to do*. Social responsibility, along with business ethics, tells what an organisation *ought to do*. The issue of responsibilities of business towards society merits considerations in all phases of strategic management; but to make it explicit and meaningful it should be brought to the foreground during strategy formulation and carried through strategy implementation and evaluation. In this section of the chapter, we discuss the differing views on social responsibility, provide some information on social responsibility in the Indian context, and finally show how social responsibilities could be imbibed into strategic management of organisations.

Differing Views on Social Responsibility

The issue of social responsibility (also *corporate social responsibility* or lately, *corporate citizenship*) evokes varying—and, often, extreme—responses from academicians and business people. At one end, the body of opinion clearly does not favour including social responsibility in business considerations. Under this view, which has been propounded notably by the economists Adam Smith and Milton Friedman, the only responsibility of business is to perform the economic functions efficiently, provide goods and services for society, and earn maximum profits. It is felt that by doing so market forces would ensure that business performs its economic functions and leaves the social functions to other institutions of society such as the government. However, this view has been severely criticised on several grounds, particularly the inadequacy of the market forces and competition to ensure social accountability.

At the other extreme, there is an opposite view which favours the position that it is imperative for businesses to be socially responsible. This is based on the argument that business organisations are a part of society and have to serve primarily societal interests rather than narrow economic objectives such as profit generation. In doing so, they have to deal with social concerns and issues and have to allocate resources for solving social problems.

In between the two extreme views, there is considerable support for the opinion that all business organisations should not attempt to solve all, or any, types of social problems. Rather, social responsibility should be discharged in such a manner that corporate competence acts as a limitation, and the scope of social responsibility is limited to those areas where the business organisation can achieve its self-enlightened interest. In other words, the economic goals and social responsibility objectives need not be contradictory to each other and should be achieved simultaneously.

Corporate Social Responsibility and Sustainability

Corporate social responsibility is not the same as corporate sustainability though sometimes it is considered as synonymous. Corporate sustainability has got to do more with the relationship of corporate activities with the natural environment. Corporate social responsibility deals with the corporate activities designed to discharge the responsibilities of the organisation to the society. The intersection of these two concepts takes place where the social responsibility includes the responsibility of the organisation to the natural environment. Besides the natural environment, corporate social responsibility would also deal with the social, economic, stakeholder, and voluntariness dimensions.[28] Corporate sustainability, as we have seen earlier, relies on the three dimensions of the triple bottom line, i.e. social, economic, and natural environment. Thus, there is a possibility of mixing up these two terms as they do overlap to a considerable extent. Of interest to us here is the social context in which these concepts of corporate social responsibility and corporate sustainability are applied. For this purpose, it is helpful to understand the Indian context of social responsibility.

Social Responsibility in the Indian Context

The behaviour of organisations corresponds to the social and economic systems in which they are embedded and the social and cultural norms prevalent at a given point of time. "It may be argued that several practices of philanthropy and corporate social responsibility of business in India are largely influenced by the context in which the companies operate, i.e. the wider socioeconomic environment and the relationship between business, government and society."[29]

The corporate social responsibility (CSR) is not a new concept in India. It is a well-established tradition in the corporate sector particularly in the family-owned organisations that have had a strong social orientation to community through charity and philanthropic activities. Some authors identify four models of the CSR operating in India. These models are as follows:[30]

1. Gandhian model Voluntary commitment to public welfare based on ethical awareness of social needs.

2. Nehruvian model State-driven policies including state ownership and extensive regulation and administration.

3. Milton-Friedman model Corporate responsibility primarily focused on owner objectives.

4. Freeman model Stakeholder responsiveness which recognises direct and indirect stakeholders' interests.

While no one model dominates corporate actions in India, the Gandhian and Nehruvian models could be the idealised versions, and the Milton-Friedman model the more prevalent one in India. But increasingly, there are pressures indicating that the Freeman model may also be gradually gaining acceptance. These pressures may arise from myriad reasons such as: a strong and continuing tradition of corporate social responsibility in the past particularly during the national independence movement; a strong tradition of religious benevolence; association of influential political leaders with social activism; inherent suspicion of multinational corporations; emergence of a strong non-governmental sector; increasing exposure to global practices in CSR; fear of political backlash owing to aggressive corporate activities; and the emergence of corporate citizenship movement.

Some drivers of corporate social responsibility in India are identified as:[31]

- *Market-based pressures and incentives:* The pressure on Indian organisations to respond to global standards of CSR so as to present a good image to prospective international partners, to aspire for achieving globally-accepted certification in achieving social and environmental and to compete with global companies within India prompt them to adopt CSR more enthusiastically. At the same time, large companies have resources to invest in CSR initiatives.
- *Civil society pressures:* Traditionally, NGOs and businesses have had a weak or even an adversarial relationship. But increasing pressures from the civil society has made business organisations respond to them more favourably. At the same time, the power and acceptability of the NGOs have also generally increased putting greater pressure on the business organisations to respond.
- *Regulatory environment in India:* Legislation in India, related to social issues, work, and wages, and environmental regulation have tended to impose restrictions on the business organisation making them respond in terms of compliance as well as self-imposed codes of conduct.

Partners in Change, a not-for-profit organisation of Action Aid International, conducted a series of surveys on corporate involvement in social development in India. Its survey of 2006–07 came up with some interesting findings. Almost all organisations have awareness of corporate responsibility (CR). The government's role in CR was perceived best as the facilitator. Apart from reputation building being rated the most important motivating factor for engagement in CR, other factors included as motivating factors for CR engagement include building employee morale, company value realisation, investor relationships, risk management, and operational efficiency. What constraints CR engagement are factors such as lack of knowledge, management support, and governance. Only half the companies surveyed have formal CR policies, many of them public sector enterprises. Health and safety, providing equal opportunities, and compensation are more popular CR issues. The major beneficiaries of the CR activities are employees and their family members. Majority of the companies have an operating plan for CR implementation. Environmental issues have low priority among CR activities.[32]

Exhibit 3.3 Corporate Social Responsibility in the Indian Context

N.K. Balasubramaniam of the Indian Institute of Management (IIM), Bangalore, along with co-authors summarises the findings of several surveys on corporate social responsibility in India while reporting on IIMB's own survey by its Centre for Corporate Governance and Citizenship (CCGC).

Some of their major observations based on the analysis of survey findings are as follows:

- *Perspectives on the understanding and importance of CSR:* There is a growing recognition of the strategic significance of CSR in India. Rather than conduct CSR as philanthropy or merely legal compliance it has to be considered as fundamental to the core business of the corporation and related to its core business opportunities.
- *Major areas of CSR concern in India:* Issues related to social upliftment and development are seen as major areas of social concerns. These include environmental pollution, health, education, poverty alleviation, social welfare, and community and rural development.
- *Motivation for CSR:* There are two sets of motivational factors that lead to CSR concerns; one is related to social concerns such as ethics, values, social improvement, caring for society while the other is related to business concerns such as corporate reputation, employee and customer relationship, stakeholder impact, responsiveness to local community, legal compliance, and strategic planning at the board level.
- *Responsibility for CSR:* Top management or the executive group within corporations is seen to be the mainly responsible for CSR initiatives. Rather, CSR initiatives gain significance when backed by the top management. There is admiration for the managers and CEOs who are perceived as socially-responsive. The corporate social responsibility is perceived as meaningful when it is linked to corporate strategy and is a part of governance, reputation management, and risk assessment.
- *Obstacles and problems in CSR implementation:* There are several types of obstacles and problems identified in the surveys such as: competitive business practices, poor ethical decision-making, corruption and mismanaged government practices, lack of executive commitment and unprofessional management, ineffective evaluation of CSR implementation, and an ad hoc approach rather than strategic CSR interventions.

Overall, the findings indicate that while CSR is perceived as strategically significant but has yet to be extensively integrated into the practices of the corporations in India.

Some later surveys on CSR have some more interesting findings:

- A survey conducted by Human Resources (HR) consulting firm Mercer titled 'Corporate Social Responsibility and Sustainability Programmes, Policies and Practices Survey,' reveals that about 73 per cent employers in India stated they have a CSR sustainability policy. Only about one-third of Indian organisations stated that they issue an integrated annual report on their CSR activities. Justifying the business value of CSR/sustainability initiatives is among the top challenges faced.
- The Kaiser Permanente Medical Group (KPMG) survey on corporate reporting practices among Indian organisations shows that the Global Reporting Initiative and National Voluntary Guideline on Social, Environmental, and Economic Responsibilities of Business are most used reporting frameworks. Nearly one-third of organisations surveyed have separate reports on corporate responsibility. Information technology (IT) companies tend to have better quality reporting. A large number of organisations place the onus of corporate responsibility on the CEO or the board of directors. Reporting on stakeholder engagement is becoming popular.

Sources: N. K. Subramaniam, D. Kimber, and F. Siemensma: "Emerging opportunities or traditions reinforced? An analysis of the attitudes towards CSR, and trends of thinking about CSR, in India" *The Journal of Corporate Citizenship* 17 (Spring 2005): 79–92. The surveys included in the analysis presented in this exhibit include: Tata Energy Research Institute—New Academy of Business—ORG-MARG Research 2001; Centre for Social Marketing survey 2001; IndianNGOs.com survey 2002; United National Development Programme—British Council—Confederation of Indian Industry-PricewaterhouseCoopers survey 2002; National Stock Exchange survey 2003 and Indian Institute of Management, Bangalore survey 2001. India KPMG's *Corporate Responsibility Reporting Survey, 2013,* available at http://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/India-Corporate-Responsibility-Reporting-Survey-2013.pdf; "Education is the most favoured area for CSR spend in India: Mercer survey" in Business Line, 14 November, 2014 available at http://www.thehindubusinessline.com/news/states/education-is-the-most-favoured-area-forcsr-spend/article6600044.ece. Retrieved 26 November, 2014.

Exhibit 3.3 provides information from a number of other surveys conducted on corporate social responsibility in India. Observe that the perception of CSR is changing in India as organisations come up with new realities of the business environment. A significant observation from our viewpoint is the need for organisation to treat CSR as a strategic issue rather than one that is treated as once-in-a-while financial contribution or as bothersome legal compliance. Making CSR a strategic issue means that it is incorporated within the organisation's strategic plan. This is also borne out by comments from elsewhere. For instance, in an article in *Harvard Business Review*, Porter and Kramer comment that two reasons hold back corporations from improving the social and environmental consequences of their activities. First, corporate social responsibility is not an issue of pitting business against society; it is rather a relationship of interdependence. Second, corporate social responsibility is thought of in generic ways rather than as something appropriate to a firm's strategy.[33] But there is a contrary view too that needs mention here. Some scholars in the area of social responsibility have pointed out that the Western concept of social responsibility emphasises reconciliation of their strategies with social welfare and looking for ways to steer the organisation on a socially-engaged course of action. This is contrary to the Eastern, including the Indian, perception of being holistic and intrinsic in matter of discharging social responsibility. Absence of formal policies and structures to support social responsibility initiatives must not be seen as a lack of commitment to social responsibility itself.[34] This is to be expected in the Indian society where the adage *bahujana sukhaya bahujana hitaya cha* (Sanskrit; meaning: 'for the happiness of the many, for the welfare of the many') has been part of the social consciousness since the ancient times. We will explore the issue of relating social responsibility with strategic management further in the next section.

Social Responsiveness and Strategic Management

We may consider social responsiveness as the level of interest exhibited by an organisation in discharging social responsibility. It is generally the top management which takes the major decisions regarding the choice of social concerns to be addressed, definition of the scope of social responsibility activities, and resource allocation to social responsibility programmes. These decisions are based on the views, opinions, personal values, and the disposition towards business ethics of the top management.

Having decided, in principle, to discharge social responsibility, the top management should seek to align its social responsiveness with strategic management. By such an alignment is meant the reflection of social responsiveness in all the phases of strategic management. Thus, the role of strategists in strategic intent and hierarchy of objectives, strategy formulation, strategy implementation, and strategy evaluation will all be affected by social responsiveness.

The role of the board of directors is crucial in generating a high level of social responsiveness. Then it is for the CEO to take up the tasks involved in discharging social responsibility. The strategic intent should consider social responsibility while delineating the purpose and corporate philosophy of the organisation. The vision and mission of an organisation could be stated in such a manner that the role of the organisation in society is clear. This should be reflected in objectives-setting. Besides economic, non-economic objectives should also be set which can help an organisation to decide what has to be achieved in the areas of social responsibility.

An environmental appraisal, which includes an assessment of the social environment, should be able to help the strategists to forecast social concerns and issues that need urgent attention. Organisational appraisal should assist the strategists in assessing corporate competencies available in tackling social problems which should, in addition, help the top management in setting priorities for social responsiveness.

The choice of strategic alternatives could be guided by the priorities emerging out of the environmental and organisational appraisals. In fact, there is a strong case for the argument that "the inner coherence of the corporate strategy would be extended by choosing (social) issues most closely related to the economic strategy of the company, to the expansion of its markets, to the health of its immediate environment, and to its own industry and internal problems."[35] So the selection of corporate- and business-level strategies should take into account the social responsibility aspects too.

When it comes to strategy implementation, social responsiveness would seek to alter the pattern of resource allocation. This is a crucial test for the top management to stick to its convictions. Without adequate allocation of funds, not much headway can be made. Business organisations that are believes in being socially responsive will have to assign duties and responsibilities to personnel, or may even have to create specific positions and systems so that social responsiveness does not suffer. Policies and procedures will have to be set for an effective discharge of social responsibility functions. The survey reported in Exhibit 3.3 makes a mention of the need for organisations to incorporate CSR into their practices. This shows that there are not many organisations having formal policies and administrative mechanisms to discharge social responsibilities. There is a need for organisations to have proper project and procedural implementation mechanisms in place for formulating and implementing social projects. The leadership role of strategies will be exhibited if they take a lead in promoting social responsiveness among organisational members and set an example by developing and inculcating personal values that support, rather than impede, the discharge of social responsibility functions. Exhibit 3.4 presents an illustration of a social entrepreneur whose for-profit organisation is built and sustained on the concept of social responsibility.

Exhibit 3.4 Interweaving Social Responsibility with Commercial Purpose

There is much talk of sustainability in today's world. Social responsibility is about many things. It is also about sustainability. Take for instance, technology. An appropriate technology is one that can enable poor people to make a living that can raise them out of poverty. Electricity is one means to help the people make a living. India's villages are typically dimly lit by paraffin lamps and dim lights battling darkening chimneys. Sustainable electricity has the potential to help poor people become literate, for instance, and literacy is a means to lift them out of poverty.

Harish Hande has been working in the business of solar electrification for the past 12 years. Inspired by his professor at the University of Massachusetts, Jose Martin, who advised him that "socio-economic needs are more important than technology" Hande ventured in 1995, into selling solar power to the poor of Karnataka. At the university he had worked for his Masters and Ph.D. in solar electrification. He gathered first-hand experience in the Dominican Republic, as a student of the Indian Institute of Technology, Kharagpur, where he observed the poor people readily paying for access to solar power.

Hande established the Selco Solar Light Company with a vision to empower the poor by enabling them access to electricity through solar energy. Selco has 85,000 clients in Karnataka and Gujarat at present bringing sustainable electricity to 35,000 homes and small businesses. There are 145 employees, many of whom share his vision. Revenues for the year ending March 2007 were Rs. 13.25 crore with Rs. 75 lakh losses. Undeterred by losses, Hande has worked tirelessly to knit his sense of social responsibility with his business strategies. Projected losses for 2008 are Rs. 25 lakh. There are related diversification plans to move into bio-gas and cooking gas aiming at becoming an energy services company. Future plans include raising equity capital to finance an incubation centre at Bangalore using Selco as a training base to create Selco-type organizations by training social entrepreneurs.

The business model rests of Selco rests on two basic needs of the potential customer: doorstep servicing and doorstep financing. Doorstep servicing is achieved by setting up solar panels where needed; solar service centres are manned by technicians from nearby villages reachable by the service centres. This is one of the pillars of the business model. The second pillar rests on micro-financing as the poor are not able to pay lump sum for the services. Here enters the role of regional rural banks, commercial banks, cooperatives, and NGOs which finance or help financing the setting up of solar panels. The business is entirely market based and, remarkably, does not require government subsidies.

Harish Hande is an individual of multifaceted personality. Forty years old, he is a sort of polyglot who speaks several Indian languages. He prefers wearing ethnic clothes. His work came into limelight when he became the winner of the Ashden Award for Sustainable Energy in 1995, and the Social Entrepreneur of the Year 2007. Hande is busy breaking some entrenched myths, among them are: poor cannot afford technology; poor cannot maintain technology; and one cannot run a commercial venture without running a social venture. In the process, he is attempting to empower the poor in more ways than one.

Sources: L.H. Lovins: "Development as if the World Mattered" *World Affairs Journal* May 2005; "A businessman's crusade against darkness" *Business Standard*, 4 December, 2007; S. Dowerah: "An entrepreneur's crusade in lighting up India's villages" livemint.com *The Wall Street Journal*, 4 December, 2007. Available online at *http://www.livemint.com/2007/12/04111530/Web-Exclusive–An-entrepreneu.html?pg=2* Retrieved 2 February, 2008; S. Bhattacharya: "Solar crusader: Harish Hande" *Business Today*, 23 Dec, 2007; and Selco's website at: *http://www.selco-intl.com/* Retrieved 2 February, 2008.

Till here, we have seen how social responsiveness can be aligned with strategy formulation and implementation. But social responsibility functions, just like other business functions, need to be evaluated with regard to their effectiveness. Social audit is a technique that could be help here. Social audit is "a commitment to systematic assessment of and reporting on some meaningful, definable domain of the company's activities that have social impact."[36] It is also understood as "a method for organisations to plan, manage and measure non-financial activities and to monitor both the internal and external consequences of the organisation's social and commercial operations".[37] "Organisations like the Tata Iron and Steel Company Ltd. (TISCO (now Tata Steel)) and ITC have been pacesetters so far as the introduction of social audit as a means for measuring their social performance is concerned."[38] Dr. Reddy's Laboratories regularly brings out its social audit report.[39] In the public sector, there are instances of the Bharat Heavy Electricals Ltd. (BHEL) and Cement Corporation of India (CCI) among a few others that publish social accounts.[40] The seriousness of intent can be gauged on the basis of efforts that companies put in evaluating their social responsibility activities.

All in all, it can be said that social responsiveness can be operationalised and activated by aligning it with strategic management process. The quality of social responsiveness can also be considerably enhanced by doing so. Essentially, social responsiveness would depend on the level of social consciousness of the managers of the organisations. The worldview of managers is thought of as generally being limited to managing to achieve economic objectives. Those managers who rise above this limitation and look to the natural and social objectives as necessary to sustainability are guided by their personal values and business ethics they practice.

Summary by Learning Objectives

This chapter has been devoted to sustainability and its related aspects. Our effort has been to focus on their relationship to strategic management. The issues that we discussed in this chapter includes some of the most important and topical issues in management and business. The main points covered in this chapter are as follows:

LO 1 *Express the relationship of sustainability and strategic management*

- We started with a discussion of corporate sustainability that is seen as an extremely important issue in the contemporary world. It is concerned with the economic, environmental, and social impact of business. We referred to some important issues in sustainability such as the dilemma between profit maximisation and sustainability, the triple bottom line of achieving results for people, planet and profit, and the three types of capital—the social, natural and economic. Sustainable strategic management is the idea that market and physical environmental sustainability is to be achieved simultaneously.

LO 2 *Describe the association between stakeholders' management and strategic management*

- Stakeholders constitute the individuals and groups that contribute and support organisations while having a stake in them. There are external and internal stakeholders that have a two-way relationship with the organisation. They support the organisation and in return have expectations and claims. Such expectations and claims are different for each group of stakeholders. The organisations need to do stakeholders' analysis to determine the relative importance of different stakeholders so that appropriate engagement tactics could be used to manage the stakeholder – organisation relationship.

LO 3 *Examine the role of corporate governance in strategic management*

- Corporate governance deals with the management of relationship between the directors, managers, and other stakeholders of the organisation. Two different perspectives to corporate governance are discussed in terms of the agency theory and stewardship theory. We briefly traced the development of corporate governance in India noting that its importance is increasing. Corporate governance is related to all aspects of strategic management including determination of strategic intent, strategy formulation, strategy implementation, and strategy evaluation.
- The board of directors of an organisation is the highest body in the organisation responsible for its corporate governance. The directors play a strategic role of directing, guiding, approving, and reviewing strategic decisions made by the strategic leaders of an organisation.

LO 4 *Identify the contribution of social responsiveness to strategic management*

- Social responsibility is a contentious issue and we have placed before the readers three different views: those for and against social responsibility, and the third view of creating consistency between the economic goals and social performance. Due to a combination of factors, internal as well as external, business opinion is moving towards a gradual acceptance of social responsibility by Indian organisations.
- To impart a practical bias to the discharge of social responsibility, strategists have to define the scope and then proceed to align social responsiveness to the process of strategic management. For this to take place, social responsiveness is to be interlinked to all the phases of strategic management.

EXERCISES

Short-answer Questions

1. Express the idea of corporate sustainability in your own words. **(LO 1)**
2. What is the inherent contradiction between profit maximisation and sustainability? **(LO 1)**
3. What are the components of triple bottom line? **(LO 1)**
4. Which types of capital can be considered from the sustainability viewpoint? **(LO 1)**
5. How can strategic management be made sustainable? **(LO 1)**
6. Who are the stakeholders of an organisation? What are the two types of stakeholders? **(LO 2)**
7. Explain the nature of the two-way stakeholder-organisation relationship. **(LO 2)**
8. Why is stakeholders' analysis done? **(LO 2)**
9. Mention a few stakeholder engagement tactics used by organisations. **(LO 2)**
10. Differentiate between the agency theory and stewardship theory of stakeholder relationship. **(LO 2)**
11. Mention the corporate governance mechanisms used in India. **(LO 3)**
12. Relate corporate governance to strategy formulation and strategy implementation. **(LO 3)**
13. What are the typical functions that the board of directors perform? **(LO 3)**
14. State the five more important tasks that strategic leaders perform. **(LO 3)**
15. Enumerate the major insights developed by leadership theory to help strategists in leadership implementation. **(LO 3)**
16. What is meant by the phrase 'appropriate style of leadership'? **(LO 3)**
17. How can the choice of future strategists through succession planning help in their development? **(LO 3)**
18. How is the development of strategists done through career planning and development programmes by the Indian companies? **(LO 3)**
19. List some of the major roles that CEOs are called upon to play in strategic management. **(LO 3)**
20. Why is social responsibility a contentious issue? **(LO 4)**
21. What is the predominant thinking presently regarding the social responsibility of business? **(LO 4)**
22. What is meant by aligning strategic management to social responsiveness? **(LO 4)**

Assurance of Learning Exercises

1. Write an explanatory note on the relationship of strategic management to corporate sustainability. **(LO 1)**

2. Suggest a plan of action to integrate corporate sustainability with strategic management for an entrepreneur who is involved in setting up her own business. What types of strategies could she avoid so that her business remains sustainable over a long period of time? **(LO 1)**
3. Discuss the need for stakeholder relationship management. Also describe the technique of stakeholders' analysis. **(LO 2)**
4. Suggest the ways a large organisation can formulate and implement an effective plan to engage its stakeholders. **(LO 2)**
5. Describe the manner in which corporate governance can be related to different phases in the strategic management process. **(LO 3)**
6. Discuss the roles that the board of directors play in strategic management. **(LO 3)**
7. Describe the major tasks that strategic leaders perform in organisations. **(LO 3)**
8. How can the strategic leaders match their leadership style to the requirements of strategy being implemented? **(LO 3)**
9. Consider this situation: The patriarch of a family-business group in India passes away and his two sons take over the strategic responsibilities. The group is known to adopt a conservative style with tight management and financial controls, coupled with personalised organisational systems, such as, information and appraisal. The sons now wish to adopt expansion and diversification corporate strategies to take advantage of environmental opportunities. You are called in as strategic management consultant to suggest a plan for help the group companies in developing and implementing an appropriate leadership style. What would you suggest in this regard? **(LO 3)**
10. Describe the roles of CEOs in strategic management. **(LO 3)**
11. Describe the role of senior managers, business-level executives, and functional and operational managers in strategic management. **(LO 3)**
12. The top manager in a professionally-managed company was overheard as saying: "I believe in being responsible only to my boss and the board of directors. Social responsibility is their responsibility, not mine". Do you agree? Why? **(LO 4)**
13. There are still quite a lot of Indian industrialists and managers who feel that social responsibility activities do not require specialised skills and could be handled informally. Is this thinking correct? Why? **(LO 4)**
14. Social responsibility in India has traditionally been thought as giving financial and other material assistance to worthy social causes. Depending on their philanthropic inclination, businessmen in India have donated money for various types of social activities. This has been done on a random basis without considering such management actions as rational business decisions, except, perhaps the resulting advantage of tax deductibility. How can social responsiveness be a strategic consideration in the light of above observations? Discuss. **(LO 4)**

Review Case

EMBEDDING CORPORATE SOCIAL RESPONSIBILITY INTO STRATEGY AT THE TATA GROUP*

"In a free enterprise, the community is not just another stakeholder in business but is in fact the very purpose of its existence." This is a statement of the founder of the Tata group of companies Jamsetji N. Tata. The thinking behind the statement probably drives the corporate social responsibility initiatives at the Tata group of companies.

The Tata group describes itself as "India's oldest, largest, and most respected business conglomerates" a depiction that seems to be quite justified. The group's businesses operate globally through 100 companies—32 of them publicly-listed—in seven business sectors. There are nearly 581,470 employees working in these companies. The group revenue was \$103 billion (around Rs 625,000 crore) in 2013–14 with 67.2 per cent revenue from companies outside India.

The Tata group defines its purpose as being: "...committed to improving the quality of life of the communities we serve. We do this by striving for leadership and global competitiveness in the business sectors in which we operate". There are five core values that guide the Tata group's business decisions: integrity, understanding, excellence, unity, and responsibility. The value of integrity means conducting business fairly, honestly, and with transparency. Understanding involves caring, showing respect, compassion, and humanity for colleagues, customers, and community. Excellence denotes striving constantly to achieve high standards in work and quality. Unity implies building strong relationships with colleagues, customers, and business partners. Responsibility signifies giving back more to community and society.

The corporate governance structure is headed by the chairman of the Tata group assisted by the group executive council having members representing the various strategic and functional activities. The Tata group has created a formal structure to direct sustainability activities. The Tata Council for Community Initiatives (TCCI) is a centralised agency, set up in 1996, to bring together good corporate sustainability practices within Tata group companies. The Tata group has a chief ethics officer. Sustainability initiatives are streamlined through the Tata corporate sustainability policy, the Tata Index for sustainable human development taxonomy, and Tata index for sustainability.

The Tata code of conduct, established in 1998, and modified over the years is a comprehensive document that serves as the ethical road map for Tata employees and companies. It also provides the guidelines by which the group companies conduct their businesses.

Stakeholder engagement is a process of high priority at the Tata group. There is a chief sustainability officer (CSO) to lead the process. The CSO identifies key stakeholders and assigns them priority in engaging with them. Engagement is through communication, dialogue, and participation.

The tradition of CSR is embedded in the history of the Tata group. The J.N. Tata Endowment Scheme was established in 1892. Over the years, individual family members have created a constellation of trusts and endowments that contribute to a wide range of CSR activities. In the words of J.J. Irani, ex-managing director of Tata Steel: "Some people consider social responsibility as an additional cost; we don't. We see it as part of an essential cost of business, as much as land, power, raw materials and employees." This is seen in the quantum of funding that is channelled into CSR. The promoter holding company, Tata Sons, has 60 per cent equity held by philanthropic trusts aimed at returning wealth to society. The Tata group contributes nearly 30 per cent of profit after tax which is an unusually high figure when other companies or business group may take pride in putting in just one per cent of profits into CSR. The high social investment come from the Tata trusts that have a controlling interest in the holding company, Tata Sons. This ensures that the dividends paid out are directed to CSR making the Tata group of companies unique in ensuring that personal wealth is converted into social capital.

In order to create accountability, the Tata group has a distinctive evaluation system called the Tata Index for Sustainable Human Development. The Index is a set of guidelines for Tata companies looking to fulfil their social responsibilities. Of significance is the fact that the Tata Index is built around the Tata Business Excellence Model that drives business decisions of the group companies. One of the several areas of business performance in the model is of governance and social responsibility indicating the strategic priority given to this issue by the Tata group. Typically, business organisations have considered social responsibility far removed from their mainline business activities. Not so, at the Tata group where CSR is a key element in the business model. It is the responsibility of every company in the group to make CSR a component of its strategic plan.

Company initiatives for community development cover a vast gamut of areas such as education, health, arts, and sports. Workplace initiatives are directed towards safe and comfortable work environment for employees besides nurturing of ethics and value systems. The environmental initiatives are aimed at repairing green cover, reducing effluents and emissions, maintaining local ecologies, and improving long-term corporate sustainability.

Despite having a centralised network and structural arrangements, the individual Tata companies are autonomous to choose whatever CSR initiatives suit the requirements of the communities they work with. The strategy that each company evolves is required to be focussed on the needs of the communities in which the company works in. There is a conscious effort to match the strengths and competencies of the company to the developmental needs of the communities being served. Thus, the company is left free to determine the scope of its CSR initiatives be it in the area of arts and culture, civic amenities, education, environment, health, or infrastructure. For instance, the Tata Steel Rural Development Society (TSRDS) works at Tata Steel for the rural communities around the operational units while Tata Chemicals Society for Rural Development (TCSRD) does similar work for Tata Chemicals. Voltas for Women (VOW) is an exclusively female society consisting of female employees and wives of employees who work on health and education issues for women. The Tata family trusts consist of the Sir Dorabji Trust and Sir Ratan Tata Trust besides the J. N. Tata Endowment. Some of the prominent Tata-funded institutions are the Indian Institute of Science (IISc), Tata Institute for Fundamental Research (TIFR) and Tata Institute of Social Sciences (TISS), and the Tata Memorial Hospital (TMH).[41]

Questions

1. Collect evidence from the case to support the argument that social responsiveness at the Tata group is closely aligned with its strategic management. **(LO 4)**
2. How would you respond to a critic who says that the Tata group engages in CSR activities to enhance the reputation of the Tata brand and thereby benefit economically from its social responsibility initiatives? **(LO 1)**

Notes and References

1. Hindustan Unilever and Unilever websites at *http://www.hul.co.in/* and *http://www.unilever.com/;* See HUL's sustainable living plan at *http://www.hul.co.in/sustainable-living-2014/* and its annual report 2013–14 for details of achievements of the plan at *http://www.hul.co.in/Images/HUL-Annual-Report-2013-14_tcm114-391926.pdf*; "Hindustan Unilever: Marrying business with social good" available at *http://forbesindia.com/article/leaderhip-awards-2013/hindustan-unilever-marrying-business-with-social-good/36391/1;* For criticism of Unilever see "Unilever and the case for sustainable business" available at *https://www.chinadialogue.net/article/show/single/en/6913-Unilever-and-the-case-for-sustainable-business;* and *http://www.theguardian.com/sustainable-business/blog/unilever-project-sunlight-campaign-expert-view*; "Hindustan or Unilever?" *The Economic Times,* 27 March, 2013, p. 17. All websites retrieved 3 May, 2014.
2. S. Sharma, 'Research in Corporate Sustainability: What Really Matters?' in *Research in Corporate Sustainability: The Evolving Theory and Practice of Organizations in the Natural Environment* ed. S. Sharma and M. Starik (Cheltenham: Edward Elgar, 2003): 1–29.
3. T. Dyllick and K. Hockerts, 'Beyond the Business Case for Corporate Sustainability', *Business Strategy and the Environment,* 11 (2002): 130–41.
4. See, for instance, S. Dutta, 'Triple Bottom Line Reporting: An Indian Perspective', *Interdisciplinary Journal of Contemporary Research in Business,* 3, no. 12 (2012): 652–59. Also Deloitte & Indian Chamber of Commerce, *Public Sector Enterprises in India: Pursuing the Triple Bottom Line*, September, 2011 available at *https://www.deloitte.com/assets/Dcom-India/Local%20Assets/Documents/Public_sector_enterprises_in_India1.pdf* Retrieved 1 May, 2014.
5. *National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business*. The Ministry of Corporate Affairs, Government of India, New Delhi, 2011, available at *http://www.nfcgindia.org/pdf/National_Voluntary_Guidelines.pdf* Retrieved 10 May, 2014.
6. J.A. Parnell, 'Sustainable Strategic Management: Construct, Parameters, Research Directions', *International Journal of Sustainable Strategic Management,* 1, no. 1 (2008): 35–45.
7. A good discussion of integrating sustainability into strategic management appears in I. Bonn and J. Fisher, 'Sustainability: The Missing Ingredient of Strategy', *Journal of Business Strategy,* 32, no. 1 (2011): 5–14.
8. T.M. Jones and A.C. Wicks, 'Convergent Stakeholder Theory', *Academy of Management Review,* 24 (1999): 206–21 and R.E. Freeman, *Strategic Management: A Stakeholder Approach* (Boston, M.A.: Pitman, 1984): 53–54.

9. A.J. Hillman and G.D. Keim, 'Shareholder Value, Stakeholder Management, and Social Issues: What's the Bottom Line?' *Strategic Management Journal,* 22 (2001): 125–39.
10. I.C. Macmillan and P. E. Jones, *Strategy Formulation: Power and Politics* (St. Paul, Minn.: West Publishing, 1986) and M.A. Carpenter and Wm. G. Sanders, *Strategic Management: A Dynamic Perspective* (Upper Saddle River, N.J.: Pearson Education, 2007): 47–49.
11. For stakeholder mapping see, for instance, R.E. Freeman, *Strategic Management: A Stakeholder Approach* (Boston, M.A.: Pitman, 1984) and B.R. Agle, R.K. Mitchell, and J. A. Sonnenfield, 'Who Matters to CEOs? An Investigation into Stakeholder Attributes and Salience, Corporate Performance and CEO Values', *Academy of Management Journal,* 42, no. 5 (1999): 507–25.
12. Engaging with stakeholders from Unilever website: *http://www.unilever.com/sustainable-living-2014/our-approach-to-sustainability/engaging-with-stakeholders/* Retrieved 3 May, 2014.
13. M.A. Hitt, R.D. Ireland, and R.E. Hoskisson, *Strategic Management: Competitiveness and Globalization* (Thomson South-Western, 2007): 22–23.
14. Information about Wipro's stakeholder relationship management programme available at *http://www.wipro.com/webpages/itservices/industries/health-science/SRMServices.htm* Retrieved 5 December, 2007.
15. D. Kumar, "Waiting for the Active(ist) Investor', *Value Research,* 8 October, 2007 available at *http://www.valueresearchonline.com/story/storyview.asp?str=10504* Retrieved 5 December, 2007.
16. For details about the agency theory see M.C. Jensen and W.H. Meckling, 'Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure', *Journal of Financial Economics,* 3, no. 4 (1976): 305–60; E.F. Fama 'Agency Problems and the Theory of the Firm', *Journal of Political Economy,* 88, no. 2 (1980): 288–307 and K.M. Eisenhardt, 'Agency Theory: An Assessment and Review', *The Academy of Management Review*, 14, no. 1 (1989): 57–74.
17. J.H. Davis, F.D. Schoorman, and L. Donaldson, 'Toward a Stewardship Theory of Management', *Academy of Management Review,* 22, no. 1 (1997): 20–47.
18. L.C. Gupta, *Corporate Boards and Nominee Directors* (New Delhi: Oxford University Press, 1997): 153–54.
19. Definition of corporate governance and its key aspects available at the official website of the National Foundation for Corporate Governance at: *http://www.nfcgindia.org/* Retrieved 5 December, 2007.
20. N. Dwivedi and A.K. Jain, 'Corporate Governance and Performance of Indian Firms: The Effect of Board Size and Ownership', *Employee Responsibilities and Rights Journal,* 17, no. 3 (September 2005): 161–72.
21. Website of Investment Information and Credit Rating Agency (ICRA) provides information related to rating on corporate governance of Indian companies at *http://www.icra.in/corpgov.aspx* Retrieved 6 December, 2007.
22. 'BSE Plans Corporate Governance Index', *The Hindu Business Line,* 29 November, 2007. S.
23. O. Goswami, *The Tide Rises, Gradually-Corporate Governance in India*, Presented at the Informal Workshop held on 3–4 April, 2000, at OECD Headquarters, Paris on behalf of Confederation of Indian Industry, New Delhi. An account of the state of research on corporate governance in India is available in P. Srinivasan and V. Srinivasan, 'Status of Corporate Governance Research on India: An Exploratory Study', (30 December, 2011). IIM, Bangalore Research Paper No. 334. Available at SSRN: *http://ssrn.com/abstract=2121141* or *http://dx.doi.org/10.2139/ssrn.2121141*
24. S. Pandey, 'Triple Bottom Line and Corporate Governance', CII-ITC CESD, 2011 available at *http://www.nfcgindia.org/pdf/Triple_Bottom_Line.pdf* Retrieved 9 May, 2014.
25. B. Garrat, *The Fish Rots from the Head.* (London: Harper Collins, 1997)
26. S.K. Bhattacharaya and N. Venkatraman, *Managing Business Enterprise—Strategies, Structures and System* (New Delhi: Vikas Publishing House, 1983): 168–69.
27. C.J. Coulson Thomas, 'Creating an Effective Board', *IIMB Management Review*, (January – March 1997): 39–40.
28. Dahlsrud analyses 37 definitions of corporate social responsibility concluding that rather than definition what matters more is the way social responsibility is socially constructed in a specific context. See A. Dahlsrud, 'How Corporate Social Responsibility is Defined: An Analysis of 37 Definitions', *Corporate Social Responsibility and Environmental Management* (in press). Excerpt available at *http://www.*

mcxindia.com/csr/newsarticle/pdf/csr_news45.pdf Retrieved 9 May, 2014.

29. A. Mohan, 'Corporate Citizenship: Perspectives from India', *Journal of Corporate Citizenship,* 2 (Summer 2001): 107–17.
30. R. Kumar, D. Murphy, and V. Basari: *Altered Images: The 2001 State of Corporate ,Responsibility in India Poll* (New Delhi: Tata Energy Research Institute, 2001)
31. A. Sood and B. Arora, *The Political Economy of Corporate Responsibility in India* Programme Paper No. 18, November 2006, United Nations Research Institute for Social Development, Geneva. The paper is available at *http://www.unrisd.org/unrisd/website/document.nsf/ab82a6805797760f80256b4f005da1ab/a00e0ff825fc59aac1257258002ffc1e/$FILE/Sood-Arora-pp.pdf* Retrieved 21 January, 2008
32. Partners in Change: *Fourth Report on Corporate Responsibility in India* 2006 – 2007 (New Delhi: Partners in Change). Available at *http://www.picindia.org/publication/csr.pdf.* Retrieved 10 May, 2014; and B. Arora and R. Puranik, 'A Review of Corporate Social Responsibility in India', *Development,* 47, no. 3 (2004): 93–100.
33. M.E. Porter and M.R. Kramer, 'Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility', *Harvard Business Review* (Dec 2006).
34. P. Sundar, *Beyond Business: From Merchant Charity to Corporate Citizenship in India* (New Delhi: Tata McGraw Hill, 2000)
35. Christensen, *et al, op. cit.*, 454.
36. R.A. Bauer and D.H. Fenn, Jr., 'What is a Corporate Social Audit?' *Harvard Business Review,* 51, no. 1 (1973): 37–48.
37. F. Spreckley, *Social Audit – A Management Tool for Cooperative Working* (Leeds, UK: Beechwood College, 1982)
38. K.M. Mittal, *Social Responsibilities of Business: Areas and Progress* (Delhi: Chanakya Publications, 1988): 189.
39. See, for instance, the Social Audit Report 2005-06 (released in March 2007) of Dr. Reddy's Foundation at *http://www.drreddys.com/coverview/pdf/Social_Audit_Report_DRF_2005-06.pdf.* Retrieved 20 January, 2008.
40. G.S. Batra, 'Dynamics of Social Auditing in Corporate Enterprises: A Study of the Indian Corporate Sector', *Managerial Auditing Journal,* 11, no. 2 (1996): 36–45.
41. The company website of Tata Group at *http://www.tata.co.in/* is quite informative. Read about stakeholder engagement at *http://www.tata.co.in/pdf/Toolkit_Stakeholders_Engagement.pdf;* Tata code of conduct is available at *http://www.tata.co.in/aboutus/articlesinside/Tata-Code-of-Conduct.*

PART 2 Strategy Formulation

Chapter 4
Environmental Appraisal

Chapter 5
Organisational Appraisal

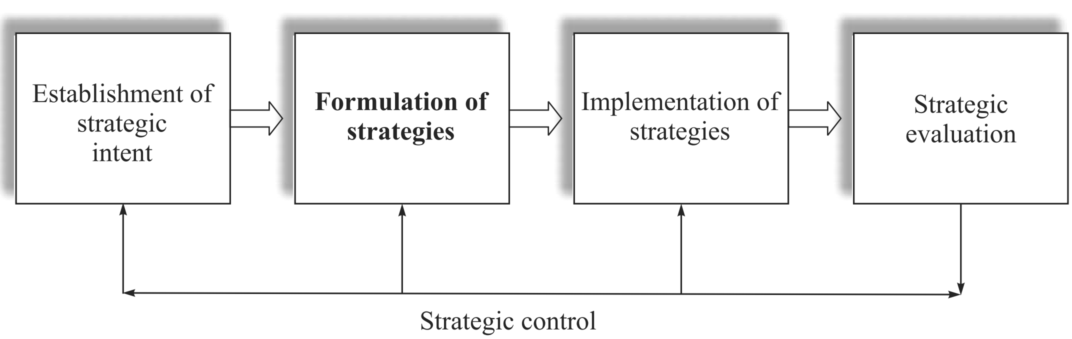
Chapter 6
Corporate-level Strategies

Chapter 7
Business-level Strategies

Chapter 8
Methods for Pursuing Strategies

Chapter 9
Strategic Analysis and Choice

The second part of the book deals with the second phase of strategic management. This is the most comprehensive of all and contains six chapters. The initial two chapters (chapters 4 and 5) are on SWOT analysis with one chapter each concerned with environmental and organisational appraisals. These appraisals tell us what opportunities and threats exist in the environment and the strengths and weaknesses of the organisation. Corporate strategies are discussed in the sixth chapter. We get a chance here to study the various types of corporate strategies that organisations formulate. In doing so, we study the traditional method of classifying strategies of stability, expansion, and retrenchment. Then we take up the individual strategies of concentration, integration, diversification, and internationalisation. As we do, we discuss the significant issue of corporate restructuring. The seventh chapter on business strategies explains the popular typology of generic competitive strategies of cost leadership, differentiation, and focus. Chapter 8 is on methods for pursuing strategies discusses strategic alliances and joint ventures, mergers and acquisitions, strategic outsourcing, and digitalisation. We would see how leveraging can take place for pursuing strategies and embedding sustainability into strategy. The ninth and last chapter in this part is on strategic analysis and choice. Here we discuss the process of objective and subjective analysis of strategic alternatives to make a strategic choice. Along with this, we touch upon the contingency strategies. The chapter ends with the description of strategic plan which is to be taken up for implementation.



4
CHAPTER

Environmental Appraisal

Learning Objectives

After reading this chapter you should be able to:

LO 1 Describe the concept of environment in the context of strategic management
LO 2 Name, describe, and demonstrate understanding of eight environmental sectors
LO 3 Elaborate the process of environmental scanning
LO 4 Prepare environmental threats and opportunities profile (ETOP) for an organisation

Chapter Outline

Preview Case

BUSINESS ENVIRONMENT IN INDIAN FOOD PROCESSING INDUSTRY*

The food processing industry in India could appropriately be described as one of India's higher- potential but under-exploited industry. Processed foods are value-added products when raw commodities are transformed into a processed product. India's food processing sector covers a wide range of raw, intermediate, and finished products. These include dairy, fruits and vegetable processing, grain processing, meat and poultry processing, fisheries, and consumer foods including packaged food and beverages.

The Ministry of Food Processing Industries, set up in 1988, is the nodal agency in India responsible for developing the food processing industry. For the Government of India, the food processing industry is a priority sector thus ensuring policies to support investment and attract more foreign direct investment.

Just a few reliable statistics related to food processing industry in India are available. Based on the figures collected from sources including the Ministry, the estimates of industry size is Rs. 8500 billion (US137 billion) likely to grow at a compound annual growth rate (CAGR) of 6 per cent. Annual food exports from India are around US$ 22 billion and have grown fast at a CAGR of 33 per cent. Yet, India's share in total world trade in processed food remains abysmally low at around 2.3 per cent. All figures relate to 2013–14.

The major market players in the Indian food processing industry include local companies such as Amul, Kwality, Rei Agro, KRBL, Parle Agro, Hatsun Agro, Heritage Foods, Kohinoor Foods, LT Foods, Lakshmi Energy, Mavalli Tiffin Room (MTR) Foods and formidable foreign companies such as Britannia, Nestle, Glaxo Smith Consumer Healthcare, Pepsico, and Hindustan Unilever.

The business environment in which the food processing industry exists could be explained in terms of the opportunities and threats.

Opportunities are supported by factors such as:

- High demand potential—the total expenditure on food in India is 32 per cent of an urban (44 per cent in rural) household's total average annual expenditure as compared to that of an aggregate of 12 per cent in USA.
- Low output from organised sector—less than 2 per cent of the total production of fruits and vegetables is processed.
- Exports of agricultural and processed food have been rising steadily. Agricultural and Processed Food Products Export Development Authority (APEDA) figures put exports at Rs. 17,918 crore in 2005–06 rising to Rs. 31,552 crore in 2013–14; increasing preference for Indian foods abroad.
- Low cost Indian labour can be used to set up large, cost-effective manufacturing units for domestic and export markets.
- Diverse agro-climatic conditions in India provide a wide-ranging and large raw material base suitable for food processing industry. There is great potential for semi-processed and ready-to-eat packaged food segments. Food production is surplus.
- Younger population, increasing urbanisation, changing lifestyles, emergence of nuclear families, increasing personal incomes, improving standards of living, rising number of working women, convenience needs of dual income families.
- Deep inroads by the spread of television as an advertising medium and emergence of retailing culture.
- Increasing income levels in India have led to a variety in diets with rising per person consumption of dairy products, fruits, and vegetables; projected shift in Indian eating habits to mass-based basic foods like *atta* (wheat flour), chicken, milk, etc.

- Emergence of branded quick service restaurants market in India that has attracted international brands such as Domino's, Kentucky Fried Chicken (KFC), McDonald's, Nando's, and Subway; the same remains attractive for more players.
- Several promotional measures undertaken by the government under the Ministry's Vision, 2015 document.
- Adoption of food safety and quality assurance measures by the industry.
- The advent of the World Trade Organization (WTO) regime and reduced subsidies in developed countries can add to India's strengths in food production and processing industry.

Threats arise owing to factors such as:

- Lack of comprehensive national policy on the food processing industry; reservation of several items for the small-scale sector and overregulation with multifarious legislation governing the industry; large number of licensing and regulatory authorities overseeing agro-food processing units in the country; inconsistencies in policies at central and state governmental levels.
- Inadequate infrastructure for distribution and preservation: long and fragmented supply-chain retail structure, inadequate infrastructure, including cold chain storage refrigerated vehicles for logistics and transportation, special handling facilities at airports, and inadequate post-harvest management.
- Limited access to appropriate technology for processing and packaging, low investment in research and development by industry and high cost of production.
- Impediments to exports in terms of onerous certification, registration, and labelling requirements, differing food standards around the world, shelf-life requirements, intellectual property right protection, and customs procedures.
- Losses from the wastage of fruits and vegetables for want of processing and value addition.
- Lack of trained manpower and technical know-how and support.
- High taxation on packaged items.
- Lack of private initiative and weak private–public partnership provisions.
- Resistance from civil right groups.

Besides these threats, there are some interesting myths related to processed food and the industry in India. For instance, it is perceived that Indians are largely vegetarian while the fact is that 75 per cent are non-vegetarians. Or, that the food processing industry is a high-risk industry dominated by multinational companies (MNCs). The reality is that it is not a high-risk industry and is dominated by local companies worldwide. The global trends reveal that in developed countries there is rising demand for convenience and specialty food products. In developing countries like India the experience is that as income increases, demand for processed food grows, especially for higher valued food products such as meat and poultry products.[1]

As everything exists in the physical environment, organisations exist in the business environment. A group of rival companies makes up an industry. We observed how the food processing industry in India is affected by the different levels of the environment at the global and national levels. The rise in disposable incomes, for instance, may leave more money in the hands of the consumer to spend on discretionary spending creating an opportunity for the food industry. Lack of clarity in government policy and inadequate infrastructure may pose threats to the food industry. The industry environment, as we will see subsequently, constitutes one of the most significant parts of the environment for an organisation. Food processing companies are quite likely to be affected by how the food processing industry shapes up.

Strategic management of an organisation is basically about how it deals with its external environment and establishes linkages with it. These linkages are the strategies. This chapter is devoted to an understanding of the external environment that organisations face. Environment can be divided into external and internal parts. This chapter deals with different aspects of the external environment. The internal environment will be discussed in the next chapter.

4.1 CONCEPT OF ENVIRONMENT

LO 1

Environment literally means the surroundings, external objects, influences, or circumstances under which someone or something exists. The environment of any organisation is 'the aggregate of all conditions, events and influences that surround and affect it.'[2] Since the environment influences an organisation in so many different ways, its understanding is of crucial importance. The concept of environment can be understood by looking at some of its characteristics.

Characteristics of Environment

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

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

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

3. Environment is multifaceted What shape and character an environment assumes 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 frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

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

Since the environment is complex, dynamic, multifaceted, and has a far-reaching impact, dividing it into external and internal components enables us to understand it better. But before we do that it is important to understand that strategic management is increasingly becoming conscious of the nature of the environment and the ways that it that affects organisations.

The traditional approach to strategic management has led to an emphasis on control, order, and predictability. But these are antithetical to the concept of organisations and environment as we realise now. The organisation and the environment are, in reality, more unpredictable, uncertain, and non-linear. Exhibit 4.1 presents an overview of the chaos theory and its application to strategic management.

Exhibit 4.1 Complexity and chaos in strategic management

Complexity theory of which chaos theory is a part, deals with the process of self-organisation. Chaos theory, proposed by Edward Lorenz and Mitchel Feigenbaum, postulates that at the root of all complex systems—whether they are organisations or the environment—there are a set of rules that provide a dynamic order to the surface complexity. These systems cannot be considered as linear systems where a simple cause and effect model can explain the behaviour of these systems. Rather, these systems are non-linear and dynamic in nature. Any change that takes place in the non-linear systems is chaotic. Chaos theory uses the mathematical models, known as chaotic models, to interpret the process of non-linear and dynamic systems. The phenomenon of chaos is observed in a wide variety of processes—biological, sociological, economic, and meteorological. The applications of chaos theory in management may range from predicting market behaviour, financial forecasting, to anticipating competitive strategies.

Organisations and environments display many of the characteristics of the living eco-systems—as these are also dynamic, ever changing systems—making it possible to apply the tenets of chaos theory to them.

In suggesting the use of chaos theory to strategic management, D. Levy gives the following reasons:

- Long-term planning is difficult
- Industries do not reach a stable equilibrium
- Dramatic changes can occur unexpectedly
- Short-term forecasts and predictions of patterns can be made
- Guidelines are needed to cope with complexity and uncertainty

The lesson that students of strategic management need to learn is that, in a dynamic environment, it is suicidal for organisations to remain static. They have to forego maintaining an internal orientation and attempt to change dynamically as the environment changes. Managers should not fall into the trap of over-rationalisation, over-reliance on sophisticated modelling, and the futile attempt to create order where a state of equilibrium simply cannot exist for long. Creative disorder in the environment, as it is in the universe, needs to be taken to heart by managers.

Sources: D. Levy, 'Chaos theory and strategy: Theory, application and managerial implications' in *Strategic Management Journal,* 13 (1992): 111–25; D.N. Chorafas, *Chaos Theory in the Financial Markets* (Chicago: Irwin, 1994); R.D. Stacey, *Complexity and Creativity in Organizations* (San Francisco: Berrett-Koehler, 1996) and R.T. Pascale, M. Millemann, and L. Gioja, *Surfing the Edge of Chaos: The Laws of Nature and the New Laws of Business* (New York, Three Rivers, 2000).

Let us get ahead to grapple with the complexity of the environment by its division into internal and external environments.

Internal and External Environment

The internal environment refers to all factors within an organisation that impact strengths or cause weaknesses of a strategic nature. The external environment includes all the factors outside the organisation which yield opportunities or pose threats to the organisation.

The environment in which an organisation exists can, therefore, be described in terms of the strengths and weakness existing in the internal environment and the opportunities and threats operating in the external environment. The four environmental influences could be described as follows.

Internal environment:

1. *Strength* is an inherent capacity which an organisation can use to gain strategic advantage. Examples of strength are: good reputation among customers, resources, assets, people, experience, knowledge, data, and capabilities.
2. *Weakness* is an inherent limitation or constraint which creates strategic disadvantages. Examples of weakness are: gaps in capabilities, financial limitations, low morale, and overdependence on a single product line.

External environment:

3. *Opportunity* is a favourable condition in the organisation's environment which enables it to consolidate and strengthen its position. Examples of opportunity are: economic boom, favourable demographic shifts, arrival of new technologies, loosening of regulations, favourable global influences, and unfulfilled customer needs.

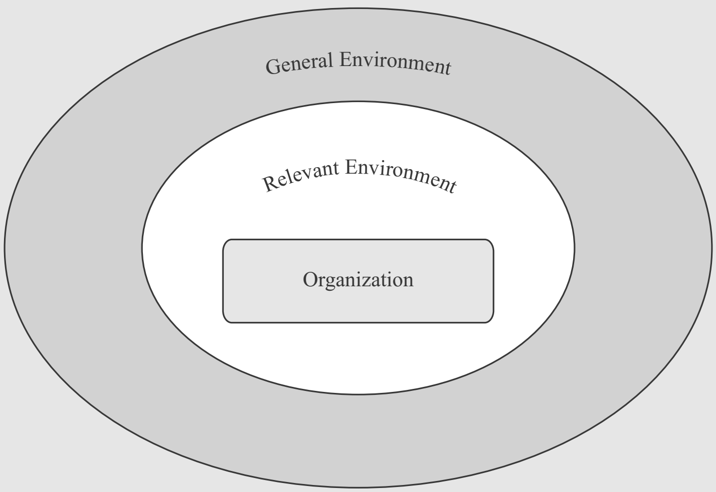
4. *Threat* is an unfavourable condition in the organisation's environment which creates a risk for, or causes damage to, the organisation. Examples of threats are: economic downturn, unfavourable demographic shifts, new competitors, unexpected shifts in consumer tastes, demanding new regulations, stringent legislation, new technology, and loss of key staff.

An understanding of the external environment, in terms of the opportunities and threats, and the internal environment, in terms of the strengths and weakness, is crucial for the existence, growth, and profitability of any organisation. A systematic approach to understanding the environment is the SWOT analysis that we shall learn about in detail in a later chapter. Let's focus here on the external environment further.

General versus Relevant Environment

The external environment, as we stated earlier, consists of all the factors which provide opportunities or pose threats to an organisation. In a wider sense, the external environment encompasses a variety of sectors like international, national, and local economy, social changes, demographic variables, political systems, technology, attitude towards business, energy sources, raw materials and others resources, and many other macro-level factors. We could designate such a wider perception of the environment as the general environment. All organisations, in some way or the other, are concerned about the general environment. But the immediate concerns of any organisation are confined to just a part of the general environment which is of high strategic relevance to the organisation. This part of the environment could be termed as the immediately relevant environment or simply, the relevant environment. The conception of the business environment of an organisation is presented in Exhibit 4.2.

Exhibit 4.2 The Business Environment of an Organisation



A conscious identification of the relevant environment enables the organisation to focus its attention on those factors which are intimately related to its mission, purpose, objectives, and strategies. Depending on its perception of the relevant environment, an organisation takes into account those influences in its surroundings which have an immediate impact on its strategic management process. Having identified its relevant environment, an organisation can systematically appraise it and incorporate the results of such an appraisal in strategic planning. In order to cope with the complexity of the environment, it is feasible to divide it into different sectors.

4.2 ENVIRONMENTAL SECTORS

LO 2

The classification of the general environment into sectors helps an organisation comprehend the different influences operating and relate them to its strategic management process. Different bases for classification have been adopted by different authors but the basis itself is not as important as the fact that all the relevant factors in the environment have to be considered. Depending on a variety of factors such as the size of the organisation, level and scope of activities, geographical spread of markets, nature of product, type of technology used, level of uncertainty faced, and managerial philosophy, an organisation may divide its environment into sectors capable of being analysed conveniently.

In this book, we are using an eight-category classification of environment. We expect that these eight sectors cover almost all the factors that a typical Indian organisation would look for in its external environment. These eight sectors of the environment, arranged in alphabetic order, are: economic, international, market, political, regulatory, socio-cultural, supplier, and technological sectors. We will now take up each of these sectors for discussion.

Economic Environment

The economic environment consists of macro-level factors related to the means of production and distribution of wealth that have an impact on the business of an organisation.

Some of the important factors and influences operating in the economic environment are:

1. The economic stage in which a country exists at a time such as agrarian, industrial, or post-industrial economy.
2. The economic structure adopted, such as a capitalistic, socialistic, or mixed economy.
3. Economic policies such as industrial, monetary, and fiscal policies.
4. Economic planning, such as five-year plans, annual budgets, etc.
5. Economic indices like national income, distribution of income, rate and growth of gross national product (GNP), per capita income, disposable personal income, rate of savings and investments, value of exports and imports, the balance of payments, etc.
6. Infrastructural factors such as financial institutions, banks, modes of transportation, and communication facilities, etc.

Strategists are acutely aware of the importance and impact of the economic environment on their organisations. Almost all annual company reports presented by the chairmen devote attention to the general economic environment prevailing in the country and an assessment of its impact on their companies.

Several examples of the factors and influences operating in the Indian economic environment that have had a far-reaching impact on all business organisations are described as follows:

- It is common to read or hear that India and China are the two Asian economic dragon and elephant respectively who are set to share with the US the distinction of being the world's economic powerhouses. The Indian economy is now considered as the third largest economy in terms of purchasing power parity just after the US and China. But there are significant challenges ahead for the Indian economy too. Rising economic disparities, monsoon-dependent agricultural sector, inadequate socio-economic reforms, institutional and infrastructural bottlenecks, and a volatile stock market are seen as factors holding back a full-scale economic blossoming of India. The Indian organisations, in their strategic planning, have to be acutely aware of the diverse economic scenario unfolding before them.
- India's emerging image as a global economic force sits uncomfortably with the harsh reality of the status of its human development. The euphoria regarding the impressive economic growth in India pales into insignificance when one looks at the human development rankings. India ranked 135 of 187 countries in

2014 which is dismal performance. Despite poverty declining faster in recent years there are still about 270 million poor people. The outcome of poverty is social inequity leading to social strife that is not good for economy. No nation can expect to have achieved developed status while a major part of its population lives in poverty. The corporate sector has to consider the possibilities in serving the economically-weaker sections of the society and get involved in various ways for poverty alleviation in its own interest.

- Economic slowdowns result in lesser spending by consumers. But is the converse also true? This question has confounded the corporate sector and marketers more than the economists. Surveys of consumer behaviour are unambiguous on one point—Indian consumers are discerning spenders and try to maximise value from spending money. They are not swayed by hard-sell and exaggeration, look for tangible pay-offs, and do not rely excessively on brand image alone. Companies, especially in the fast-moving consumer goods (FMCG) sector, have realised this and have been responding with alacrity. Colour televisions, mobile phones, personal computers, airlines, hotels, and several other industries have faced the onslaught of liberalisation and the ensuing competition with a range of innovative marketing strategies.
- Contrary to common perception, the economic growth in India has mainly been fuelled by the growth in domestic savings and not foreign investment. Such savings by households are mainly for education, provision for healthcare, and security for old-age. The country does not have, or maybe cannot afford to have, a generalised social security system. Savings in India have been traditionally invested in fixed assets and precious metals. Gold, for instance, is perceived as insurance or a pension product. There has been little trust among general public for private investments. Just about 2 per cent of Indians invest in equity markets. The share of savings entrusted to the government has been channelled through post offices and banks. However, during the 1980s, the investors started turning to other avenues like stock markets and company deposits. Progressive changes in economic and fiscal policies have led to many developments. Pension reforms could lead to unbundling of huge resources for corporate investment. Leasing and financing companies, public sector bonds, mutual funds, venture capital business, new financial instruments, entry of banks and financial institutions in stock trading are some of these developments which provide the resources for capital markets and project financing.

Exhibit 4.3 The 'LPG' of the Economic Environment in India

By 'LPG', as colourfully stated by the once-redoubtable former chief election commissioner T N. Seshan, is meant liberalisation, privatisation, and globalisation. You often hear these terms and might have an idea of what they mean. Let us see the meaning of these terms in the context of the Indian economic environment.

Liberalisation refers to a set of measures and reforms aimed at the creation of an open economy. Broadly, the economic policies talk of liberalisation measures for industry and trade and reforms related to the macro aspects and structural adjustments.

Liberalisation measures encompass the following:

- Industrial policies related to liberalisation of licensing of companies, foreign exchange and its regulation, monopolies and restrictive trade practices, and the public sector reforms.
- Trade policies related to liberalisation through encouragement of foreign investments, opening of exports and imports sectors, lowering of import tariffs, abolition of import licensing, and convertibility of rupee.

The reforms process includes:

- Fiscal (say, reduction of fiscal deficit and reform of taxation system), monetary (say, lowering interest rates and controlling inflation), banking sector (say, freeing interest and lending rates and entry of private banks), and capital market reforms (say, entry of private sector mutual funds and allowing foreign institutional investors in capital markets).
- Structural adjustments related to phasing out of subsidies and price controls, and disinvestment in public sector units, and framing of exit policy for industry.

The ongoing reform process, often referred to as second-generation reforms, include transparent financial systems, better governance, focused social sector spending, and trade and labour reforms.

Privatisation refers to the process of selling of state-owned enterprises (or public sector units as we call them) to private individuals or corporations. In a limited sense, it also means the hiring of a private business to provide products and services previously offered by a government agency. Liberalisation in the shape of public sector reforms, for example, entails disinvestment of government equity in public sector units resulting in their privatisation. Another aspect that is quite popular in India is greater involvement in economic activities through public-private partnerships.

Globalisation means the integration of a country's economy with the global economy. This is done in several ways like enhancing inward flow of foreign funds and technology, open up the system of trade and investments, and, in general, the internationalisation of markets, production, and corporations. Operationally, it means that a company that could earlier be successful by focussing only on making and selling goods and services within its national boundaries now expands its horizon to the world.

You will note that the three terms are not mutually exclusive in terms of their coverage. These should not be viewed in watertight compartments. Instead, these are to be seen as a part of an elaborate economic philosophy of focussing on entrepreneurialism or individual initiative as the vehicle for economic growth, development, and progress as opposed to state or government-led economic development.

Exhibit 4.3 presents basic information about the 'LPG' of an economy by what is meant liberalisation, privatisation, and globalisation. You must have often heard or read about these terms. This exhibit offers an explanatory view of the terms much used but probably not correctly understood. Liberalisation, privatisation, and globalisation are essential features of the economic environment of any country. No other development has as much affected the business environment in India as these have. Business firms are still in the process of coming to terms with the total impact that these developments are having on them. In fact, these three developments have created the need for more focussed strategic management by Indian companies. Since these terms are quite significant, they will often be referred to further in the text in different contexts.

International Environment

The international (or global) environment consists of all those factors that operate at the transnational, cross-cultural or across-the-border level having an impact on the business of an organisation.

Some of the important factors and influences operating in the international environment are as follows:

1. Globalisation, its process, content and direction
2. Global economic forces, organisations, blocs, and forums
3. International trade and commerce, its processes and trends
4. Global financial system, sources of financing, and accounting standards
5. Geopolitical situation, equations, alliances, and strategic interests of nations
6. International demographic patterns and shifts
7. Global human resource: institutions, availability, nature and quality of skills and expertise, mobility of labour and other skilled personnel
8. International information system, communication networks, and media
9. Global technological and quality systems and standards
10. Worldwide markets and competitiveness
11. Global legal system, adjudication, and arbitration mechanisms
12. Globalisation of management and allied disciplines and diffusion of management techniques in industry

The international environment constitutes a special class of environmental sector. While the other seven sectors, we discuss here, are largely limited and exclusive in nature, the international environment encompasses all the sectors albeit in the global context. In other words, what we mean to say is that while political environment, for instance, within a country could consist of certain factors related to national politics, the international environment would also have a geopolitical component including the political factors and influences at the global level.

Three instances to exemplify the significance of international environment for Indian business and industry are as follows:

- China is number one, India is number two: this is what we often get to hear in terms of economic growth. Comparison in the context of the international environment is in order. China's economy is twice that of India. China has enjoyed a long-term gross domestic product (GDP) growth rate of 9 per cent to 10 per cent versus India's 6 per cent to 7 per cent and China's per capita income is more than double that of India. Moreover, China exports 6 times what India does. Not only are the two Asian neighbours contenders for the number one position, they are competitors in various industries internationally too. Yet, there are pockets of excellence for India that other industries need to replicate. The Indian pharmaceuticals industry is one such example where it is far ahead of its Chinese counterpart in terms of developing international marketing. This has significance for strategic planning for the existing and prospective Indian multinational companies.
- Increasing labour mobility is a significant international environmental trend presently. Despite better technology reducing the need for labour, it still remains the most important factor of production. Internationalisation of markets and production requires frequent movement of labour, especially high-skill, better qualified people to move frequently across borders. Demographic changes of falling fertility rates in developed regions and countries such as the European Union (EU), Japan, and Singapore mean that more influx of skilled people would be required. Traditionally and historically, India has been a supplier of labour to the world. This includes emigration of highly educated people causing a phenomenon called 'brain drain'. Increasingly, however, there is the phenomenon of 'brain gain' whereby qualified Indians return home to work or set up their own companies. Indian industry and companies have to take into account these divergent trends related to labour mobility in the international environment.
- Among various external financial sources, the equity market constituted an important source of financing for Indian companies, followed by bank loans and loans from financial institutions. The start of India's economic reforms in the early 1990s led to a flood of overseas equity issues via American and global depositary receipts. Indian companies now are increasingly seeking cheaper and quicker loans from the international financial markets where access has been made easier by regulatory reforms of streamlined and liberalised external commercial borrowing procedures and policies. Typically, Indian companies searching for funds overseas are drawn from a range of industries from automotive to financial, and some sectors like infrastructure having deep funding requirements. Reliance being the first to enter the US private debt placement market and Tata Power, India's largest private-sector power producer, raising foreign currency convertible bond signified an increasing trend of international financing. These trends suggest that there will be many more large transactions for the bigger Indian companies that are growing in size and ambition and will continue to look at foreign financing to fuel growth, both for capacity expansion and acquisitions, depending on constraints to international financing such as India's sovereign credit rating, exchange-rate risk, and stringency of compliance requirements.

Exhibit 4.4 Relevance of WTO as an International Environment Factor for Indian Companies

The WTO claims to be 'the only global international organization dealing with the rules of trade between nations.' The members negotiate and sign the agreements that may be ratified by their parliaments. The goal of the WTO is to help producers of goods and services, exporters, and importers conduct their business.

The WTO was founded on 1 January, 1995 as a successor to the General Agreement on Trade and Tariff (GATT) by the Uruguay round negotiations. While GATT focussed mainly on trade in goods, the WTO covers cross-border trade in services and ideas, and the movement of personnel. It has a membership of 150 countries as in January 2007.

The functions of the WTO are:

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organisations

The World Trade Organization functions on the basic premise that free trade among nations leads to economic growth. Liberal trade policies that allow the unrestricted flow of goods and services help in honing competition, motivating innovation, and nurturing success. Its wide-ranging activities relate to agriculture, banking, food sanitation, government purchases, industrial standards and product safety, intellectual property, telecommunications, textiles and clothing, etc.

Criticism of WTO rests on several allegations made against it. WTO considers these allegations as misconceptions arising out of misunderstanding. The World Trade Organization is now under fire for failing to take into account labour standards or the environmental impact of trade. Besides, it is alleged that its efforts to break down global trade barriers are faltering. The more serious criticism relates to it being a tool in the hands of powerful multinational corporations, dictating policy to sovereign nations and prescribing actions that lead to destroying jobs and increasing poverty. The World Trade Organization addresses many of these criticisms on its website at http://www.wto.org/english/.

India is a founder member of the GATT and its successor, the WTO. India's participation aims at the development of an increasingly rule-based system in the governance of international trade so as to ensure more stability and predictability that ultimately would lead to more trade and prosperity for itself and other member-nations. India has benefited by the provisions of the WTO such as the most favoured nation principle and enabling of access to a large number of importing countries. India is also a part of the group of developing nations that seek to secure equity in access to the markets in developed countries and protecting its vital interests in agriculture. Information related to India's relationship with WTO is available with the Ministry of Commerce at http://commerce.nic.in/

There are important implications of the WTO regulations for strategic management for companies in all industries that come within its purview. Among them are the pharmaceuticals (e.g. patenting), IT (e.g. outsourcing), agriculture (e.g. food safety and processed food exports), textiles and garments (dismantling of quotas and export competitiveness), and service sector (e.g. insurance, banking, and accounting).

International environment has become increasingly important for the strategic management of Indian organisations. There has been a sea change, starting in the latter half of the 1990s and continuing at present, necessitating Indian companies to increasingly think of aligning themselves to the emerging global economic order. Evidence is found in more frequent references to global standards by exporting companies, eagerness to adopt global business practices, and realisation of the impact that international environment is likely to have on Indian business and industry. The industry federations such as the Confederation of Indian Industry (CII) have been drawing the attention of their constituents to the international environment and the impact it is likely to have on them. Progressive companies are also reported to have set up special cells and appointed managers to help them in analysing the impact of the international environment on their businesses. Of all the aspects of global economic order it is the (WTO) that arouses a heightened interest among the Indian corporate sector. The World Trade Organization is among the trilogy of the influential international institutions, the other two being the International Bank for Reconstruction and Development (IBRD) popularly known as the World Bank and the International Monetary Fund (IMF). Exhibit 4.4 presents a brief description of the WTO and an assessment of its impact on Indian business and industry.

Market Environment

The market environment consists of factors related to the groups and other organisations that compete with and have an impact on an organisation's markets and business.

Some of the important factors and influences operating in the market environment are as follows:

1. Customer or client factors such as the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour, and satisfaction of customers.
2. Product factors such as the demand, image, features, utility, function, design, life-cycle, price, promotion, distribution, differentiation, and availability of substitutes of products or services.
3. Marketing intermediary factors such as levels and quality of customer service, middlemen, distribution channels, logistics, costs, delivery systems, and financial intermediaries.
4. Competitor-related factors such as the different types of competitors, entry and exit of major competitors, nature of competition, and relative strategic position of major competitors.

The market environment largely depends on the type of industry structure. In monopolies and oligopolies, the concern for market environment is lesser than what it is under pure competition. In a controlled economy, like that of India, public utilities such as electricity boards and most public sector companies such as petrol and cooking gas companies operate in a protected environment.

In recent years, the government policies have gradually moved towards allowing competition within the public sector such as between banks and also between the public and private sector companies like in the case of television and computers. The market environment has assumed a greater importance in strategic management as the increasing pace of liberalisation has accentuated its importance.

Here are several examples to show how the market environment affects, and is taken into considerations by, the companies:

- Growing international trade, massive investment in infrastructure, increasing levels of disposable income and strong manufacturing and retail sectors have combined to produce a dynamic market environment in India. Customers and their needs have been featuring more prominently in the business strategies of firms in several industries. Other marketing-related actions include investments in retail networks, increasing opportunities for customer interactions, improving customer service, customer-focussed advertising, demonstrating a more visible presence, and improving the overall customer experience. No wonder, India is considered to be one of the best growth opportunities for several industries in the developing world.
- There is a distinct trend of growing preference for natural products around the world and this trend is also prevalent within India. Eco-friendly products whether in agriculture, clothing, cosmetics, or health care are seen as better substitutes for synthetic products. Issues such as organic produce, green technology, biodegradability, non-toxicity, or sustainable agriculture are common in product and process technologies. Indian organisations seem to benefit owing to this trend of growing preference for natural products. Ayurveda, coir, herbal cosmetics, and pesticide industry products are some of the sectors that benefit from customer preferences for natural products.
- Indians pay increasingly greater attention to personal grooming. Changing life-styles, increasing disposable incomes, availability of local and international brands, influence of satellite television, and better awareness of global brands are some of the major factors that have led to increasing demand for cosmetics. The cosmetics and personal care industry has been growing at a high rate during the last few years. With the demand for cosmetics on the rise and opening of the market to foreign companies there is increasing competition offering greater product choice and availability to the fashion-conscious Indian women and men in urban as well as suburban areas.

The market environment is one of the most dynamic sectors of the environment. Indian marketers are facing a daunting challenge in coming to terms with the dynamism and the ever-changing nature of the Indian markets. Exhibit 4.5 offers an insight into the enigma that the Indian market is.

Exhibit 4.5 The Enigma that the Indian Market is

Ask any perceptive marketer about the biggest challenge in marketing in India and chances are that s/he would name it: the heterogeneity of the Indian market. At any given time, it is difficult to segment a market. It is even more difficult trying segmenting a market as diverse and unpredictable as India's. The British Broadcasting Corporation's (BBC's) George Arney, who has been reporting on India for many years, wonders: "how do you summarise a country which is home to one in six members of the human race, contains a third of the world's poorest people and yet has an increasingly consumer-oriented middle-class twice the size of the population of Germany"?

Market analysts keep struggling with data streaming out from various surveys conducted by organization such as the National Council of Applied Economic Research (NCAER), National Sample Survey (NSS), or the Indian Readership Survey (IRS). Marketing students quickly get to adopt the jargon of consumer behaviour: 'SEC C' consumer or 'aspiring' category consumer. The hype associated with India's economic emergence fuels the marketing strategists' imagination. Yet, the elusive Indian consuming class simply refuses to come within the grips of artful tactics and carefully designed strategies.

Estimates of the number of people in the consuming class vary widely. Invariably, they are quoted in a few hundred millions. Subsequently, several of these estimates prove to be inflated and are based more on self-enlightened prophecies rather than market realities. So many MNCs with their bloodied noses can relate well to this. To them, the choice among being a volume-based, mass marketer or a premium, niche marketer has always been clear. They are there for big action in a huge marketplace. The only problem is there is hardly any homogeneity to base action upon. The Indian consumers do not act like the consumers in the countries where MNCs originate from. There seems to be more emphasis on value for money, aversion to being pushed to buy, little liking for razzle-dazzle, and the propensity to rely on reputation and trust in customer relationship.

Consumerism, or conspicuous consumption, is a double-edged sword. It fuels economic growth but also ignites social disparities and individual guilt. While it is a phenomenon experienced by industrial societies anywhere, in India it struggles valiantly with the strongly-entrenched social system and values. Take, for example, the issue of debt-funded consumption. Is postponing consumption increasingly difficult for the Indian consumer than taking a loan to satisfy it quickly? Many marketers gleefully report that the Indian consumer has finally gotten over his aversion for loans or mortgages to buy items for immediate consumption. But is it really true? It is difficult to say. If one sees it through the prism of generational differences and social mobility then it may be easier for a 23-year old man, earning a tidy amount out of his call centre job to go for instant gratification but practically impossible for his father, running his extended family with his meagre government pension, to do so. Who is the marketer really aiming at: the father or the son? They might represent the two sides of the Indian consuming class to the marketer yet they emanate from the same social milieu.

On the one hand, undoubtedly, there is a huge untapped market for consumer goods out there in India. On the other, we are already witnessing signs of consumption-induced stress. The 'buy-nothing-day'—a manifestation of fatigue by over-consumption and a social movement against mindless consumerism, observed around the world in November-end every year—was celebrated in Mumbai for the first time in 2006 and continues to make an impact.

Just like the country, the consuming class in India is a bundle of contradictions. Just like there might be an over-fed kid who is sick of consumerism and looks forward to a minimalist lifestyle there might be aspiring youth from the suburban areas looking forward to buy their first motorbike. There are so many variables making it difficult to measure, evaluate, or compare data. Besides the usual marketing variables such as demography or lifestyle, the marketers have factors such as the region, caste, and cultural diversity to contend with. Foreign, especially the American, models of marketing research can offer useful insights but cannot serve the purpose adequately of helping to have a realistic understanding of the Indian consumer behaviour. Indigenous theoretical models, understanding of markets grounded in social realities of India or simply, conservative trial-and-error may help to do so.

Despite the heterogeneity of the Indian market it is prudent to realise that the Indian society is in state of ferment. Several differences apparent today may dim in intensity or disappear totally tomorrow. This is likely to happen especially across the socio-economic classes where for instance the elite classes behave in a similar way across regional or caste divides. The market environment is dynamic, complex, and multifaceted. Its understanding and evaluation poses a difficult challenge not only to the marketer but to the strategic planner as well.

Political Environment

The political environment consists of factors related to management of public affairs by the state including its institutions and legislations and their impact on the business of an organisation.

Some of the important factors and influences operating in the political environment are:

1. The political system and its features like nature of the political system, ideological forces, political parties and centres of power.
2. The political structure, its goals, and stability.
3. Political philosophy, government's role in business, its policies, and interventions in economic and business development.
4. Political processes like operation of the party system, elections, funding of elections, formation of governments and legislation with respect to economic and industrial promotion and regulation.

India is a democratic country having a stable political system where the government plays an active role as planner, promoter, and regulator of economic activity. Businessmen, therefore, are conscious of the political environment that their organisations face. Most governmental decisions related to business are based on political considerations in line with the political philosophy followed by the ruling party at the Centre and the State levels.

Here are a few examples illustrating the impact of political environment on business.

- Indian industrialists evince a healthy and keen interest in the country's politics for several reasons. Political parties set the agenda for legislation affecting business. The government, despite liberalisation measures, wields enormous regulatory powers that could make or mar an industry. Political funding of elections is widespread among industrialists. In fact, several of them openly come out in favour of a particular political party while a few have also joined politics. There is a genuine concern about the stability of coalition governments, a common feature of the political system since the last several years, as stability of government bodes well for business and industry.
- The ideological forces that make up the centres of power in the political coalitions that rule India offer an interesting mosaic of conflicting interests and political posturing. There are leftists and rightists of various shades and hues populating the treasury and opposition benches in the parliament. Being a genuine, working democracy though unruly and noisy, the Indian political system has to incorporate a wide variety of political ideologies. Owing to social heterogeneity and economic disparities, the political environment in India inevitably is conflict-ridden. It is difficult in such an environment to build political consensus and organise concerted action toward long-term economic reform. This results in weak political action that is often hesitant and halting. For Indian politicians, support for reforms depends on which side of the governing divide you are. Once out of power, the politicians oppose reforms that they themselves vociferously supported. Frequently characterised as 'vote-bank-driven politics' such politics creates a situation where economic sense often is seen to be sacrificed at the altar of politics. Prime ministers and chief ministers in India need to be astute behavioural experts to manage the disparate elements that make up the coalitions many of them lead. Strategic planners within organisations need to take into account such political realities in India.
- Maoists, Naxalites, and ultra-leftists are some of the epithets used to designate the violent political protestors in India. Thirteen states of India and a quarter of the nearly 600 districts are estimated to be affected by such socio-political movements. The aims of these movements are controversial with supporters and rivals projecting differing viewpoints. The implications for economy are considered to be negative in the sense that the political upheavals create an unfavourable business environment for the corporate sector. A number of these states where the Maoists are most active are rich in iron ore, coal, bauxite, manganese,

and other minerals. These states have the potential to attract billions of dollars in investment and to create hundreds of thousands of sorely needed jobs. Singur, in West Bengal, a state affected by Naxalism faced acute political crisis when the communist state government allowed Tata Motors to set up an assembly plant in the vicinity of Kolkata. Jharkhand and Orissa—other states seeking to attract domestic and foreign investments—too face similar political predicaments. The former prime minister, Manmohan Singh, went to the extent of terming these protest movements as 'the single greatest threat to India's internal stability and democratic culture'. To others, they may just represent a misplaced response to 'unbridled capitalism and mindless consumerism'.

Regulatory Environment

The regulatory environment consists of factors related to planning, promotion, and regulation of economic activities by the government that have an impact on the business of an organisation.

Some of the important factors and influences operating in the regulatory environment are as follows:

1. The constitutional framework, directive principles, fundamental rights, and division of legislative powers between the Central, State, and local governments.
2. Policies related to licensing, monopolies, foreign investment, and financing of industries.
3. Policies related to distribution and pricing and their control.
4. Policies related to imports and exports.
5. Other policies related to the public sector, small-scale industries, sick industries, development of backward areas, control of environmental pollution, and consumer protection.

Since the Indian economy is largely centrally planned and controlled, the principle of regulation of economic activities by public authorities in the wider interests of all stakeholders has taken roots. Business and industry operate within a regulatory environment. The relationship between industry and the regulatory environment exists as a two-way process. The government lays down the policies, procedures, and rules according to which the industry functions. Occasionally, the industry also tries to influence the government through lobbying, creating public awareness and opinion by issuing press advertisements, and through influencing the parliamentary legislative process to create a favourable policy framework for the benefit of its constituent businesses and companies. But such a two-way relationship is titled heavily in favour of the government. It acts through its various ministries and agencies, both at the central and state levels, to regulate the activities of business.

In a previous subsection, you have seen how the economic environment is undergoing a sea change due to the liberalisation and the reform process. In fact, one of the significant manifestations of such a process is the decrease in the intensity of regulation and control by the government over industry. This is happening slowly but surely. Several of the control measures that were operating earlier have been done away with. Yet several remain and with it the regulatory role of the government lingers on.

Owing to the controls exercised through the regulatory mechanism, the regulatory environment is one of the important sectors that any organisation has to take into consideration for its strategic management.

Here are a few instances of the impact of the regulatory environment on companies:

- India shares the dubious distinction of being an over-regulated but under-governed country along with several others. PricewaterhouseCoopers, the consultancy organisation that conducts an annual survey of chief executive officers (CEOs), reports on their concerns and confidence in the business environment around the world. One factor that consistently comes out as one of the top concerns of the CEOs in India is over-regulation of business—even more than that for terrorism or scarcity of oil. The situation in India is symptomatic—there are nearly 2,500 Central laws and 30,000 State laws in force, in addition to a number of subordinate legislation. For instance, there are as many as 45 Central Acts directly pertaining to labour besides several that are of indirect relevance. Many of these, such as the Weekly Holiday Act of 1942, or the Shops and Establishment Act of 1948, have provisions that are inconsistent with the requirements of the modern economy. Besides the laws, there are the rules and regulations, and procedures to follow and myriad permissions to be secured from a number of government authorities. Naturally, foreign companies are concerned about entering into agreements with Indian companies fearing that the contract enforcement is likely to be weak. Local businesspersons especially entrepreneurs are also discouraged by over-regulation. Procedural implementation of strategies is often considered a nightmare.

- The regulatory environment for the foreign direct investment in India has been progressively liberalised during the past decade. Most restrictions on foreign investment have been removed and the simplification of procedures is proceeding quickly. Foreign companies can invest freely in India with few exceptions. The approval for foreign direct investment (FDI) is automatic in most cases. There are a few cases where investment ceilings remain but are likely to be relaxed further. For instance, FDI restriction in the retail industry is limited up to 51 per cent, but only if the retail operations are restricted to a single brand. FDI in retail could still come in without this restriction, provided this is used only for sale to other shops, but not directly to the consumers. Foreign retail companies can come in either through franchisee arrangements or in partnership with Indian companies. Another case is of the insurance industry. The present policy allows FDI in insurance companies only up to 26 per cent likely to go up to 49 per cent. Such regulatory provisions have profound implications for existing companies and those planning to enter that industry.
- Gurcharan Das quotes a study by Freddie Mehta of 50 leading Indian companies who studied the chairmen's statements for three years in succession. In the statements of 1993–94 there was a specific mention of starting up a finance company in a majority of the chairmen's statements; the 1994–95 chairmen's speeches proclaimed their interest in the power sector; and the 1995–96 reports showed a desire among many companies to enter telecommunications. Was this just a coincidence? Quite likely, the chairmen were responding to the favourable regulatory environment created by encouraging government policies pertaining to the three industries in those 3 years.

Exhibit 4.6 Why the Industry and the Government Mistrust each other?

S.K. Bhattacharya, an eminent management consultant, made a perceptive analysis of the mistrust that exists between the industry and government and made suggestions to bridge the gap in such a relationship. The differing perceptions that the industry and the government have, could be largely attributed to what managers and bureaucrats feel about each other.

What managers feel	What bureaucrats feel
Bureaucrats are procedure-bound, precedent-oriented, unable to look at the overall situation independently, and lack pragmatism.	Managers are of low intellectual calibre, selfish, unaware of macro-level policy matters, and do not contribute significantly to economic development.
Bureaucrats are easy-going, lack motivation and drive, are more concerned about wielding power, and playing politics.	Managers are snobbish, adopt an exaggeratedly high-style living, and indulge in conspicuous consumption.
Bureaucrats do not understand the value of time, delay decisions, and play into the hands of their political masters.	Managers are unprincipled, manipulative, and try to use unfair means to gain benefits.
Bureaucrats fail to appreciate that industry has to be viable in the short-run to achieve long-term national objectives. They use state involvement and interventions as levers for exercising power and patronage.	Managers do not understand the political-administrative equations on which the industry and business-related decisions rest.

Bhattacharya further suggested that the reality is far removed from what the managers and bureaucrats feel about each other. He advocated that a consultative and collaborative approach should be adopted by the government through open communication, while the industry should adopt a supportive attitude by recognising that it is the government's prerogative to regulate and guide industrial and economic development in the light of national priorities. In retrospect (Bhattacharya's perception is based on the situation in the late 1980s), it can be seen that welcome changes are slowly taking shape—the bureaucrats are no longer as secretive and industrialists adopt quite a supportive attitude to governmental initiatives. Yet, attitudes are difficult to alter and take a long time to change. What Bhattacharya perceived in the 1980s could still be relevant especially in relation to lower-level bureaucrats and industrialists working at places away from the industrial centres.

Sources: Adapted from, 'The Industry-Government Hiatus', in *Business World*, 28 March–10 April, 1988, 20–21 and 'Bridging the Gap in Government-Industry Relationship', in *Business World*, 25 April-8 May, 1988, 39–40. Both the articles have been written by S.K. Bhattacharya.

There are a number of legislative and administrative controls over business that are exercised through the regulatory mechanism. Some of the important areas of regulation are:

1. Industrial policy making, development and regulation, and licensing
2. Regulation over corporate management and avoidance of industrial sickness
3. Regulation of monopolies and restrictive trade practices
4. Regulation of foreign trade, capital, technology, and exchange
5. Regulation of money and capital markets, and stock exchanges
6. Regulation of pricing and distribution
7. Commodity exchange and its regulation
8. Protection of patents and trademarks
9. Regulation through environmental and consumer protection
10. Regulation of employment conditions through labour legislation; welfare, social security, and safety measures; maintenance of industrial relations; trade unionism; and workers' participation in management

During the course of its activities, the industry interacts with the government in innumerable ways. In fact the industry often blames the government for exercising excessive control through a plethora of rules and regulations. On the other hand, the government holds the industry responsible for many of the economic problems, for not working within the framework of national priorities, and for failing to live up to the expectations of the society in general. Such a love–hate relationship between the industry and the government is clearly evident when managers and bureaucrats interact with each other. Exhibit 4.7 presents an interesting and perceptive insight into the differing views and attitudes of managers and bureaucrats.

Exhibit 4.7 Social impact of media and its implications for business and industry

The eminent sociologist Emile Durkheim made two observations: as society grows more complex, specialised institutions serving specialised social needs develop and proliferate to maintain social stability; and new institutional forms displace old ones only when the old ones no longer manage to serve their original purposes effectively. The evolving Indian society offers an interesting setting of how the mass media has emerged as a social institution, fulfilling many of the functions that are no longer or inadequately being served by traditional social institutions such as the family or the school.

Mass media is powerful in the sense that people look to it for direction, values, and rules of behaviour. Media supply people with membership in groups. People arrange their daily routines around media activities: the morning newspaper, the afternoons for checking E-mails, and evening for prime-time television serials. Media have a prominent impact on the lifestyle of people dictating daily activities, jargon, or fashion. At tragic or exciting times, media serves as a comforter and facilitator. People turn to the media for information on railway accidents or air crashes; they put on the televisions to view and hear about the latest election trends; and they are glued to their television sets at the time of an exciting cricket match. Media performs an educational role too. The Internet is an instantaneous source of information. People turn to it for myriad purposes: knowledge, entertainment, news, or making new friends. Governments and politicians realise the power of the media in shaping public opinion. Being media-savvy is an essential qualification for political parties' spokespersons.

There is a big danger in investing the mass media with so much power. In the Western context, where media was never intended as a social institution, the profit motive is the primary purpose. When private interests override public good, audience ratings may be more important than the programme content. Titillation of senses through excessive sex and violence or as, in the case of television serials, fancy sets, expensive jewellery, and jerky story plots become essential elements in the 'masala' to attract audiences, keep them hooked, and increase advertising exposure for sponsors.

The global trends in media have not left India untouched. The spread of television network, private television channels, broadband, and telecommunications are some of these popular trends. Other trends in the making—digitisation, miniaturisation, higher bandwidth enabling transmission of images and colour, allowing greater use of portability, and the integration of converging technologies—are leading to decreasing costs and greater user-friendliness of multimedia communications and services. It is to be observed that the social impact of media is an active process that involves those who create the information and those who use it. The diffusion of each new communication medium is based on the progressive development of an effective use that may be significantly different from its anticipated use. Thus, the use of Internet for pornography or mobile phones for blackmailing and bomb blasts is unintended usage of technology. Secret filming of corruption or sex scandals by some private television channels in India may be another such destructive trend that serves little social purpose. The corporate sector primarily views the media as a means for advertising and promotion. Yet, media has much wider implications for business and industry than being just a medium for marketing communication. There is research evidence to show that countries with more open economies tend to have higher penetration rates for mass media. Indian business and industry continually need to look beyond the traditional uses of media.

Sources: Based on A. Silverblatt, 'Media as Social Institution,' *The American Behavioral Scientist,* 48, no. 1 (September 2004): 35–42; F. Yang and J. Shanahan, 'Economic openness and media penetration,' *Communication Research,* 30, no. 5 (October 2003): 557; and V. Manthripragada, 'Social Impact of Media's Exposes,' at http://news.indiainfo.com/publicopinion/medias-expose.html Retrieved 4 February, 2007.

Socio-cultural Environment

The socio-cultural environment consists of factors related to human relationships within the society, the development, forms and functions of such a relationship, and learned and shared behaviour of groups of human beings having a bearing on the business of an organisation.

Some of the important factors and influences operating in the social environment are:

1. Demographic characteristics, such as population, its density and distribution, changes in population and age composition, inter-state migration and rural-urban mobility, and income distribution.
2. Socio-cultural concerns such as environmental pollution, consumerism, corruption, use of mass media, and the role of business in society.
3. Socio-cultural attitudes and values, such as expectation of society from business, social customs, beliefs, rituals and practices, changing lifestyle pattern, and materialism.
4. Family structure and changes in it, attitude towards and within the family, and family values.
5. Role and position of men, women, lesbian, gay, bisexual and transgender (LGBT) community members, children, adolescents, and aged in family and society.
6. Educational levels, awareness and consciousness of rights, work ethic of members of society and attitude towards minority and disadvantaged groups.

Exhibit 4.8 Digital Divide: An Emerging Aspect of the Technological Environment in India

According to the IT encyclopaedia Whatis.com the term 'digital divide' describes the fact that the world can be divided into people who do and people who do not have access to and the capability to use modern information technology, such as the telephone, television, or the Internet.

The boundaries of digital divide in the world could be many. Besides the traditional dichotomy of the 'have versus haves-not', there could be developed versus developing country divide, the rich and poor countries divide, English speaking and non-English speaking people divide, Anglo-Saxon culture and the rest, and so on.

Within a country or society, the digital divide could be manifested in terms of gender group, age groups, socio-economic groups, and rural versus urban groups. In terms of the information technology it may not be limited to the possession of computers or access to the Internet but also to the skills to use them.

Digital divide is a controversial current technological issue. If you access the Internet (assuming the readers of this book are not the victims of digital divide!) you will find a wealth of information related to this issue. There are the both good and bad stories of digital divide in India. Let us take the bad stories first.

The negative aspects of digital divide are mainly seen, for instance, in terms of the dismal statistics related to the telephone density, number of personal computers, access to the Internet in India, or even the number of people who know the English language. Take this example: most worldwide web sources are in English. Barely 50 million Indians know English. So what happens to the rest? They may be wealthy, literate, educated, or whatever but since they do not know English they cannot utilise the Internet well.

The good stories relate how individuals, organisations, and the Central and State governments are working to bridge the digital divide. These relate to how some State governments are providing public services through Internet such as Madhya Pradesh government's successful experiment in Dhar district, how Pradeep Lokhande's non-governmental organization (NGO) in Pune helps brings used computers, donated by non-resident Indians (NRIs) abroad, to the villages in rural Maharashtra or how *Melurnet* provides connectivity to the poor people in Madurai district.

Of significance here is the fact that the digital divide is real, it exists, and it can be seen as a technological opportunity by the organisations rather than as a controversial issue to be debated upon endlessly. When EID Parry of Chennai, through its portal (indiagriline.com) connects the sugarcane farmers it deals with as suppliers or Amul of Anand uses it to manage information in association with its milk producers through village-based information kiosks it is an example of utilising the digital divide as a technological opportunity that benefits both the company and the community.

Sources: Adapted from K. Keniston and D. Kumar, *Four Digital Divides* (Delhi: Sage Publications, 2003); M. Nguessan, 'Defining the Boundaries of the Digital Divide,' *Proceedings of the Second International Conference on Technology, Knowledge and Society* 12–15 December, 2005 Hyderabad, and the website of *Good News India Magazine* at: http://www.goodnewsindia.com/Pages/content/economy/ddivide.html. Retrieved 27 November, 2014.

The socio-cultural environment primarily affects the strategic management process within the organisation in the areas of mission and objective-setting, and decisions related to products and markets. Strategists, in the Indian context, do not seem to be fully aware of the impact of the socio-cultural environment on business or they are so preoccupied with other environment influences that they do not give a high priority to socio-cultural factors. One reason for such a lack of interest could be the nature of socio-cultural influences. The socio-cultural changes take place very slowly and do not seem to have an immediate and direct impact on short-term strategic decisions. Nevertheless, some socio-cultural changes are too prominent to be ignored. One such change in the India context is the emergence of the mass media as a powerful socio-economic force. Exhibit 4.8 provides some understanding of the social impact of the media and its implications for business and industry in India. Here are a few examples of the impact of socio-cultural environment on business.

- India's estimated population of about 1.21 billion, in 2011, conceals several longer-term trends. One of them relates to the gender disparity—the relative position of development by women with respect to that by men.

Overall, population growth rates have declined to 1.58 per cent per year. Fertility rates in India have been declining and now stand at 2.7 births per woman. The illiteracy rates among women also continue to drop.[5] Yet, issues such as gender and reproductive rights, gender-based violence, men's involvement in childcare, and quality of childcare increasingly are being discussed as part of the policy and programme debate. The gender-related development index, a part of the United Nation's Human Development Index (HDI), reveals a dismal picture for India as it has a ranking of 132 among 187 countries indicating that on indices such as life expectancy at birth, adult literacy rate, and enrolment in educational institutions women fare worse than men. Countries smaller and less-endowed than India such as Guyana, Iraq, Namibia, and Vietnam surpass it on some of these indices.[6] The gender disparity has serious implications for the corporate sector as women have a significant position as potential consumers, employees, investors, partners, and leaders and they are the major purchase decision-makers for a variety of products and services.

- Demographers are divided over the issue whether India faces a demographic dividend or a demographic disaster. Demographic dividend is an advantage arising out of increasing population in the working age groups typically in the 15 to 64-age groups. Seen from this perspective, India is, and is likely to remain, one of the youngest countries in the world. In 2000, a third of Indians were below 15 years and nearly 20 per cent were in the 15–24 age-group. In 2020, the average Indian would only be 29 years old compared to the Chinese and American of 37 years, European of 45 years, and Japanese of 48 years. On the other hand, a large young population can also be viewed as a demographic disaster. India is likely to face problems of social instability, unemployment and underemployment, crisis of oversupply of labour accentuated by increasing industrial productivity—factors that could lead to a rapid fall in economic growth. Depending on the perspective, demographics in India could be an opportunity as well as a threat for Indian organisations.
- India is a diverse civilisation with a large variety of castes. The Anthropological Survey of India (ASI) in 1941, (caste is not identified now), identified more than 4,600 *jatis* or castes that make up the Indian society. Identity assertion, social mobilisation, politicisation of caste, and inter-caste tensions are some of dominant socio-cultural features of the Indian society. Caste considerations have become so much a part of the national political discourse that they form an inalienable part of our social interactions. Business and industry is affected as the corporate culture within is largely a microcosm of the wider socio-cultural environment outside. Some castes are also related to certain professions making people from such castes proficient for particular industries. Reservation quotas in public sector and government form the basis of employment of under-privileged from a few castes. Managers need to have a perceptive understanding of caste dynamics in Indian organisations.

Supplier Environment

The supplier environment consists of factors related to the cost, reliability, and availability of the factors of production or service that have an impact on the business of an organisation.

Some of the important factors and influences operating in the supplier environment are as follows:

1. Cost, availability and continuity of supply of raw materials, sub-assemblies, parts and components.
2. Cost, availability, and the existence of sources; means for supply of plants and machinery, spare parts and after-sale service.
3. Cost and availability of finance for implementing plans and projects.
4. Cost, reliability, and availability of energy used in production.
5. Cost, availability, and dependability of human resources.
6. Infrastructural support and ease of availability of the different factors of production, bargaining power of suppliers, and existence of substitutes.

The supplier environment occupies a dominant position in strategy formulation because of the fact that India is a developing country having problems of scarcity of capital and appropriate raw material resources. Unlike some of the western nations and Japan the reliability of supply is very low causing companies to devote a lot of attention to, and energy in, maintaining continuity of supply. Almost all annual company reports lament the shortage of power and cite the high costs of raw materials as the reason affecting their profitability.

Here are a few illustrations to highlights the importance of the supplier environment.

- Weak infrastructure is often mentioned as one of the reasons for holding back faster economic growth in India. Availability of water, electricity, and transport constitute the three weaker components of Indian infrastructure. India, with 20 per cent of global population, receives only 4 per cent of the world's annual supply of fresh water. Besides substantial household consumption, industry requires tremendous amounts of water. Availability, distribution, and pricing of water are potent socio-economic issues in India. Lack of potable water as well as for industrial use is a serious bottleneck in the supplier environment in India. No wonder, Chennai—the automobile capital of India—suffers so much for inadequate water availability. Bottled water industry has an opportunity where clean drinking water is a rare commodity.
- Power shortage affects industry considerably. The seven most energy intensive popular industries in India are aluminium, cement, fertilisers, petrochemicals, pulp and paper, refineries, and steel. Considering the case of mini-steel plants, we find that their viability is critically dependent on the cost and availability of power, as nearly 15 per cent of the total manufacturing costs are accounted for by power. It is mainly used in electric arc furnaces for melting and refining scrap during steel manufacturing. Alternative sources or power supply like generating sets are not economical to use in mini-steel plants as large amount of power are required.
- Among infrastructural inputs, road transport is one of the most important in a developing economy of a large country like India. But there are many problems faced by this sector. For instance, losses owing to high taxes on vehicles, tyres, diesel, and spare parts; poor conditions of roads, delay in transit, and fuel wastage due to bad condition of roads are estimated to be colossal. These problems have a negative impact on the cost and timely delivery of raw materials and other inputs to the industry.
- There are an estimated 500 million workers in India out of whom just 7 per cent are in the formal or organised sector. Official statistics put the unemployment rate at between 5 per cent and 10 per cent but unofficial estimates suggest it could be higher. Such dismal statistics does not seem to matter much for industries such as information technology (IT) or financial services that have witnessed high employment growth rates. At the same time, these industries have faced challenges in hiring the right type of people. Engineers have been attracted to the IT industry in large numbers making it difficult for the manufacturing and construction industries to find skilled people. Information technology industry companies such as Wipro and Infosys have had to rely on innovative plans such as hiring science graduates in large numbers at modest salaries and training them in IT. Retailing and construction industries, that witnessed a boom, also faced similar environmental challenges. The days when more qualified people could be hired by Indian companies for lower-skill jobs seem to be getting over. Kiran Karnik, the former president of the National Association of Software and Services companies (NASSCOM), describes the paradox of the Indian labour market nicely: 'While some young men, on the brink of starvation, desperately look for work, employers elsewhere look—with almost similar desperation—for appropriate people to fill tens of thousands of vacancies.'[7]

Technological Environment

The technological environment consists of those factors related to knowledge applied and the material and machines used in the production of goods and services that have an impact on the business of an organisation.

Some of the important factors and influences operating in the technological environment are as follows:

1. Sources of technology like company sources, external sources, and foreign sources; cost of technology acquisition; collaboration in, and transfer of, technology.
2. Technological development, stages of development, change and rate of change of technology, and research and development.

3. Impact of technology on human beings, the man-machine system, and the environmental effects of technology.
4. Communication and infrastructural technology in management.

Strategists can ill afford to ignore the technological environment, as technology, besides customer groups and customer functions, defines the business of their organisations. The strategic implication of technological change, according to Boris Petrov, are three: it can change relative competitive cost position within a business; it can create new markets and new business segments; and it can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.[8]

In the Indian context, we find that the state of technological development varies among different sectors of the industry. Generally, it is felt that the technology used depends on a number of factors such as cost and availability of technology, nature of competition, relevance to customer needs, and government policy. At the macro level, foreign technical collaborations are popular in India but subjected to strict regulation regarding indigenisation, impact on local technological development and employment, export commitments, etc. Technology is often used as a strategic weapon by companies operating in a highly competitive environment.

A few specific examples of the factors operating in the technological environment and their impact on business are provided here:

- An interesting mega trend in technological environment is that of knowledge-based industries. The emphasis in these industries is not on physical or tangible assets but on intangible assets such as knowledge. Thus, the value of intellectual capital determines the rank and competitiveness of an industry or company. Intellectual capital is based on factors such as research and development capabilities, patents, proprietary technologies, databases, brands, and relationships with customers and business partners. At present, there is inadequate appreciation of this technological trend in India and the corporate sector needs to internalise this fact by reorienting their focus from merely products and markets to the technologies that work behind them.
- It has become a cliché to say that the Internet has revolutionised the way business is done. Little is the realisation that the technology behind the Internet has virtually taken the enterprise information system within the reach of the customer. The enterprise information system can be linked to the customer through the call centres, Internet, and mobile devices. This is the customer relationship management system or CRM. Customisation and greater interactivity is possible through the CRM systems making process technology undergo profound changes. There are several service industries that are deeply affected by CRM. Among these are financial services including banking and insurance, travel, transportation, and utilities. Manufacturing industries too benefit by using it for retailing as well as providing after-sale support. The CRM products and services itself is a sunrise industry.
- Traditionally, technology transfer in the Indian context meant transfer of know-how through payment of royalty and fee or technology imports through import of plant and machinery and turnkey projects. Increasingly, technology transfer is now associated with foreign direct investment. This is an indication of greater confidence of international technology suppliers in the technological capacity in India as well as their self-enlightened interest in being partners in the fruits of technological developments in India. Many Indian companies have been beneficiaries of this new emphasis in technology transfer especially in the IT industry. This also partly accounts for the number of foreign companies building their research and development (R& D) bases in India or Indian companies acquiring R&D facilities abroad.

Technological environment, by its very nature, is perpetually in a state of ferment and interest is evidenced in the trends by all concerned. It is frequent to read about yearly or 10-year technological trends. Currently, for instance, we observe keen interest in the issue of digital divide in India. Exhibit 4.8 presents a brief profile of digital divide in India and how it can be viewed as a great technological opportunity by the Indian organisations to build strategies upon.

This section of the chapter has been devoted to a discussion of eight different sectors constituting the external environment of an organisation. By no means is it claimed that our coverage of environmental sectors is all-encompassing. There are other sectors too worthy of consideration. For instance, the natural, physical, or geographical environment—to which a passing reference has been made while discussing regulatory environment—is also of great concern to companies. Environmental protection is of paramount importance in a world where the issues of sustainable development have assumed great significance. The corporate sector is now required to adhere to a plethora of regulations for environmental protection and control of pollution. This is especially relevant for polluting industries like processing plants and refineries.

It should be noted that any classification of the environment into sectors is artificial and is meant solely for gaining an understanding of the different environment factors. In reality, the dividing line between the different sectors of the environment is hazy and there is a high level of interaction between the variables belonging to various environmental sectors. For example, market demand, which is a part of the market environment, does not exist in isolation but is dependent on other factors such as the general state of the economy, buyer motivation, or technical quality of the products. Apart from the inter-sectoral interaction, there are complex interlinkages existing among the factors in the same sector of the environment. To consider an example of such an interlinkage, the technological environment has a number of factors and influences. Among these, collaboration in, and transfer of, technology affect the development of technology in a particular company and also in the industry as a whole. When the technological level is raised, it has repercussions on human beings and the man-machine system. There are implications for the environmental effects of technology. A perceptive reader would also be able to read between the lines in the illustrations and exhibits provided of the inter-sectoral and intra-sectoral nature of the environmental factors. In this manner, both inter-sectoral and intra-sectoral interactions have to be considered while understanding the different environmental sectors. Strategists have to constantly monitor the environment, and its different sectors for opportunities and threats that have, or are likely to have, an impact on their organisations. Such a monitoring is done through environmental scanning.

4.3 ENVIRONMENTAL SCANNING

LO 3

In the preceding two sections, we have seen how organisations can comprehend the environment in which they exist, identify their environment, and classify it into different sectors. In this section, we turn to the methods and techniques employed by the organisations to monitor their environment and to gather data to derive information about the opportunities and threats that affect their business. Environmental scanning can be defined as the process by which organisations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

Factors to be Considered for Environmental Scanning

The external environment in which an organisation exists consists of a bewildering variety of influences. These influences are events, trends, issues, and expectations of different interested groups. These influences are explained as follows:

- *Events* are important and specific occurrences taking place in different environmental sectors.
- *Trends* are the general tendencies or the courses of action along which events take place.
- *Issues* are the current concerns that arise in response to events and trends.
- *Expectations* are the demands made by interested groups in the light of their concern for issues.

Take the example of the first public issue of shares of Reliance Industries in 1977. That was a specific event. The trend that started was of wider participation of public in equity investment in private sector companies. Note that prior to that event, equity participation in India was limited to an exclusive class of investors and the general public was not aware or interested in investing money in shares. The issue that emerged was of development of equity culture in India. The expectation by the general public that resulted was that the fruits of economic development in the corporate sector would be shared by all and sundry. Allied expectation that ensued was of protection of small or minority shareholders from rapacious private business persons through legislation, governmental action, actions of self-help groups and increasing awareness on the part of equity investors.

Another example is of the gas leakage accident that took place way back in December 1984, at the Union Carbide factory at Bhopal. That accident and the resulting disaster was an event. The trend that had arisen is a general tendency on the part of the regulatory authorities and organisations to be conscious about safety from hazardous exposure to chemicals. The issue is of a rising concern about environmental pollution. The expectation of the general public from the government is of legislating changes in rules and regulations pertaining to safety measures and stricter enforcement through various mechanisms.

Environmental influences are a complex amalgam of the events, trends, issues and expectations that continually shape the business environment for an organisation. There is some research evidence to suggest that Indian organisations conduct environmental scanning for strategic planning. Probably, the earliest study reported is by Wadhva, 1974. His working paper attempted to provide a framework for scanning the external environment of a large industrial enterprise in the private sector in India. The purpose was to help the company in the long-term planning of its activities. The impact of international, technological, national economic, social, demographic, political, and governmental regulatory conditions impinging upon the existing activities of the company were analysed. Particular attention was paid to the impact of the national five-year plans on company operations.[10]

By monitoring the environment through environmental scanning, an organisation can consider the impact of the different events, trends, issues, and expectations on its strategic management process. Since the environment facing any organisation is complex and scanning it absolutely essential, strategists have to deal cautiously with the process of environmental scanning. It has to be done in a manner that unnecessary time and effort is not expended while important factors are not ignored. For this to take place, it is important to devise an approach, or a combination of different approaches, to environmental scanning.

Approaches to Environmental Scanning

Kubr has suggested three approaches which could be adopted for sorting out information for environmental scanning.[11] We could call these approaches as systematic, ad hoc*,* and processed-form approaches.

1. Systematic Approach Under this approach information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organisation's activities, government policy statements pertaining to the organisation's business and industry, etc. 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 organisation 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 organisation 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 organisation.

3. Processed-form approach For adopting this approach, the organisation uses information in a processed form available from different sources both inside and outside the organisation. When an organisation uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in a processed form.

Since environmental scanning is absolutely necessary for strategy formulation, organisations use different practical combinations or approaches to monitor their relevant environments. These approaches may range from an informal assessment of environmental factors to a highly systematic and formal procedure. Informal assessment may be adopted as a reactive measure to a crisis and ad hoc studies may be undertaken occasionally. A highly systematic and formal procedure may be used as a proactive measure in anticipation of changes in environmental factors and structured data collection and processing system may be used continuously.[12]

Between the two extremes of the informal and formal approaches, different stances adopted by organisations might exist, depending on varying degrees of concern for the environment. Such stances are situational. For example, when an issue-related decision has to be taken, periodic monitoring of the environment may be done. Systematic and ad hoc approaches can be used for the relevant environment of the organisation while the processed-form approach could be used to appraise both the relevant as well as the general environment. Whatever approach is adopted for environmental scanning, data collection is necessary for deriving information about environmental factors.

Sources of Information for Environmental Scanning

The various sources of information tapped for collecting data for environmental scanning could be classified in different ways. There could be formal and informal sources as well as written and verbal sources. In terms of origin, data sources could be external and internal.

Some of the important types of sources of information are as follows:

1. *Documentary or secondary sources* of information like different types of publications. These could be newspapers, magazines, journals, books, trade and industry association newsletters, government publications, annual reports of competitor companies, commercial databases, etc.
2. *Mass media* such as radio, television, and Internet.
3. *Internal sources* like company files and documents, internal reports and memoranda, management information system, databases, company employees, sales staff, etc.
4. *External agencies* like customers, marketing intermediaries, suppliers, trade associations, government agencies, etc.
5. *Formal studies* done by employees, market research agencies, consultants and educational institutions.
6. *Spying and surveillance* through ex-employees of competitors, industrial espionage agencies, or by planting 'moles' in rival companies. The ethicality of these sources is suspect but since these may be in use by organisations they need to be mentioned.

Strategists use different information sources depending on their needs for environmental scanning. Government publications—though a rich and comprehensive source of information—usually are available after a considerable time lag. Private sources—though relevant and timely—are quite expensive to tap. Therefore, whenever a particular information source is used, it should be checked for its reliability, time frame, methods of data collection and analysis used, form of presentation, and whether it would be cost-effective to use them. Exhibit 4.9 provides some important information sources that could be used by strategists in the India context.

Exhibit 4.9 Information sources for environmental scanning in India

A few selected and important sources which can be used in Indian context for collecting information for environmental scanning are suggested below:

1. International publications
   (a) Intergovernmental and international agencies like UN, UNCTAD, UNDP, UNESCO, UNIDO, ILO, WHO, WTO, FAO, IBRD (World Bank), IMF, OECD, ESCAP, and others are a rich source of international statistical data. *World Development Report*, *World Economic Survey*, *Statistical Yearbook* of UN, *International Trade Statistics Yearbook* of UN, etc. are some examples of major international publications.

   (b) International private data agencies such as country rating agencies like Bloomberg, Fitch, Moody's, Standard & Poor, etc. provide credit rating and ranking of countries with regard to their attractiveness for foreign investments.
2. World Wide Web, On-line databases* and systems
   (a) Search Engines such as Bing, Lycos, Google, Yahoo! among others are good starting points to search for information related to environmental scanning.
   (b) With the emergence of Internet, the availability of data has increased manifold. Internet is a convenient access to online data bases of several types of organisations. Government agencies, private data agencies, federations of trade and industry, and individual companies and other types of institutions maintain websites that provide access to information. Examples of major information sources on Internet are: national portal of India at http://www.india.gov.in/business.php , directory of official websites of the Government of India at http://goidirectory.nic.in/index.php, India Image - meant to be a gateway to the governmental information on the web at http://indiaimage.nic.in/, and government policies are available at http://policies.gov.in/ and at Department of Industrial Policy and Promotion, Ministry of Commerce at http://dipp.nic.in/English/default.aspx
   (c) Business people are increasingly turning to the computer to assist them in tracking and managing the voluminous information about their companies and their competitors as well as general trends in industry and the economy. Data bases are a rich source of statistical and other types of data regarding the economy, industry, and the corporate sector. Several on-line data bases are available worldwide covering a vast range of subjects. Examples of business databases are India Business Database at https://www.indiabusinessdatabase.com/en/index.aspx; India Business Insight at http://indiabusinessinsight.com/ibi/login/; and Centre for Monitoring Indian Economy Private Limited at http://www.cmie.com/
3. Government publications
   (a) Governmental information sources such as the Census of India reports, five-year plan reports, statistical abstracts of Indian Union, etc. provide valuable macro-level data useful for the planning purpose. Statistical abstracts and statistical handbooks are published by several central and state government agencies. The main drawbacks are the delay in availability of the data and the fact that the data available has to be adapted for its particular use.
   (b) Periodic reports like economic surveys, annual surveys of industries, annual reports of ministries, etc. which provide current data and reflect governmental thinking and priorities.
   (c) Occasional reports brought out by various statutory agencies such as guidelines to industries, policies related to specific industry, export-import policies, etc. which are relevant for business and industry. Reserve Bank of India's (RBI's) Department of Statistics also publishes valuable occasional papers related to different aspects of the economy and industry.
   (d) Reference books and encyclopaedias
4. Institutional publications
   (a) Publications of market research agencies such as the NCAER, a statutory agency, provide extensive contemporary data on the demographic profile of customers that can be used for strategic and marketing planning. There are several private agencies, several of them in the area of marketing research, that provide similar information.
   (b) Publications of trade and industry federations such as Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce & Industry (FICCI), Association of Chambers of Commerce & Industry (ASSOCHAM), and industry associations like NASSCOM or Automotive Tyre Manufacturers Association (ATMA).
   (c) Annual company reports, which contain data related to the balance sheet and profit and loss account apart from information or plans and programmes, are an important source for studies of industry and for com-

* All websites mentioned retrieved on 29 November, 2014

petitor analysis. Company in-house journals are also a source of rich information though their circulation is limited among the members of the company.

5. Periodicals and newspapers
   Magazines (*Business India, Business Today, Business World, Forbes India, Fortune India* etc.); and newspapers (*The Economic Times, The Financial Express, Business Standard, Business Line, Mint,* etc.) are the most timely source of information related to a wide variety of issues. Besides the print versions that remain popular, the online editions are emerging as significant sources of information. Local and vernacular press increasingly devotes more space to economic and industrial issues and is a potent source of information related to grassroots issues generally ignored by mainstream media.
6. Industrial espionage agencies.
   Private agencies provide information and reports on competitor plans and activities which may be essential for strategic planning. These are used when information may not be available from other sources or when the company wants to protect itself from its competitors' attempt to infiltrate into its information system.

Methods and Techniques Used for Environmental Scanning

The range of methods and techniques available for environmental scanning is wide. There are formal and systematic techniques as well as intuitive methods available. Strategists may choose from among these methods and techniques those which suit their needs in terms of the quantity, quality, availability, timeliness, relevance, and cost of environmental information.

Various authors have mentioned the methods and techniques used for environmental scanning. LeBell and Krasner outline nine groups of techniques: single-variable extrapolation, theoretical limit envelopes, dynamic modes, mapping, multivariable interaction analysis, unstructured expert opinion, structured expert opinion, structured inexpert opinion, and unstructured inexpert speculation.[13]

Fahey, King, and Narayanan have included 10 techniques in their survey of environmental scanning and forecasting in strategic planning. These are: scenario-writing, simulation, morphological analysis, PPBS, game theory, cross-impact analysis, input-output analysis, field anomaly-relation, multiechelon coordination and other forecasting techniques.[14] Of particular interest is the emerging set of techniques based on complexity theory that is a group of mathematical techniques designed to deal with the dynamic nature of real-world problems. Among the techniques are the applications of the mathematical concepts of fractals, fuzzy logic, genetic algorithms, swarm stimulation, Monte Carlo method, and, the more popular of them—the chaos theory. Exhibit 4.1 attempted an understanding of chaos theory and its relevance to strategic management.

Owing to the increasing complexity of the external environment, inevitably there have been attempts to utilise the emerging information technologies in assisting strategic planners in environmental scanning. Techniques based on artificial intelligence, neural networks, data mining, and knowledge-based system have been proposed. An example is that of a software agent-based system for continuous environmental surveillance.[15] Another is Futurus, a business solutions-software by Satyam Computer Services for designing and simulating future scenarios.[16]

While many of the environmental techniques are based on statistical methods and increasingly the use of sophisticated software used for computer-assisted environmental scanning and forecasting, some of them, like scenario-writing, may not use statistical information but employ informed judgement and intuition to predict what the future is most likely to be, expressed in the form of a descriptive statement or report. Exhibit 4.10 presents information on the popular technique of scenario writing for environmental scanning.

Exhibit 4.10 Scenario writing for environmental scanning

Foresight and futurology require looking into the future by intelligent discerning of influences in the present environment and projecting them into the future. We are interested in foresight and future for knowing what to expect and not to be overtaken by nasty surprises. Knowing what to expect prepares us better to face future. This simple principle is behind scenario writing—one of the techniques others being extrapolation and Delphi surveys for developing foresight and peeping into the future. As Schwartz says in *The Art of the Long View*: planning for the Future in an uncertain world (New York: currency Doubleday, 1996) scenarios are not about predicting the future; rather they are about perceiving the future in the present.

The uncertainties in today's world arise from myriad influences such as fast-changing technologies, geopolitical developments, new business processes, or novel management techniques. Strategists anticipate such influences in order to cope with them effectively. One way to do that is through scenarios. Used for different purposes such as technological forecasting, scenarios are stories that paint a vivid picture of a future state in a narrative format.

Scenarios are used in environmental scanning for strategic planning. Essentially, small groups of experts and stakeholders focus intensely on influences in a particular sector of environment, say technological or markets, likely to take place during the coming years. They contemplate possible, even improbable, events that could occur to change the pattern of influences and create scenarios that reflect the optimistic, pessimistic, and most likely future shape of events to come. These scenarios provide a basis for strategy formulation.

The different stages of scenario writing proposed by Greg Tegart of the Asia-Pacific Economic Cooperation (APEC) Center for Technology Foresight, Bangkok are:

1. Identifying the focal issue, objectives of the exercise, timeframe, and appropriate participants.
2. Environmental analysis for issues and trends in the current environment.
3. Identifying and characterize key predictable variables such as demography, resources, etc.
4. Identifying critical uncertainties representing possible discontinuities.
5. Clustering of variables into a manageable set.
6. Ranking of variables to establish key driving forces according to their relative importance and rank the critical uncertainties.
7. Selecting of scenario logics that assist in determining the number and characteristics of scenarios to be developed.
8. Developing of scenarios using the key driving forces and developing strings of causally linked likely events into a coherent narrative.
9. Assessing of scenario coherence by critical examination of its logic and coverage.
10. Assessing of implications of scenarios for strategic planning.

Scenario writing helped Singapore formulate its IT vision of an intelligent island. The city of Curitiba in Brazil used it to improve civic services. New Zealand used it to project itself from an agricultural and industrial economy to a knowledge era economy. The US Federal Railroad Administration uses it for its strategic planning. India Vision, 2020, used it extensively for technological scenario writing in the IT services sector. Royal Dutch Shell uses it to develop foresight on a wide range of issues related to energy, economics, and politics in the various countries it operates. Several companies in Indian industries, including biotechnology (Panacea Biotec), consultancy (e.g. Satyam Computer Services), energy (e.g. Cairn India) fertiliser (e.g. SPIC), IT services (e.g. Gartner), and pharmaceuticals (e.g. EMD Pharma) report using scenario writing for various purposes including strategic planning.

Sources: Based on B.S. Flowers, 'The Art and Strategy of Scenario Writing,' *Strategy & Leadership,* 31, no. 2 (2003): 29–33; R.E. Neilson and D. Stouffer, 'Narrating the Vision Scenarios in Action,' *The Futurist,* 39, no. 3 (May/Jun 2005): 26–31; and G. Tegart, 'Technology Foresight: Philosophy & Principles,' available at http://www.apecforesight.org/apec_wide/docs/ForesightMethod.doc Retrieved 5 February, 2007. P. Schwartz, The Art of the Long View: Planning for the Future in an Uncertain World (New York: Currency Doubleday, 1996)

Process-based techniques for environmental scanning have been proposed from time to time. For instance, a four-step technique called Quick Environmental Scanning Technique (QUEST), proposed by B. Nanus, uses scenario writing by a team of strategists.[17] Day and Schoemaker have proposed a seven-step process for developing peripheral vision that vigilant organisations should develop, based on the assumption that opportunities and threats often begin as weak signals from the periphery of the external environment.[18]

Strategists have to be aware of the pitfalls of the environmental scanning process so as to use it judiciously.

Pitfalls in Environmental Scanning

Just like any other strategic planning technique, environmental scanning has its soft underbelly. We could enumerate at least five pitfalls faced in using environmental scanning:

- Sometimes strategic planners may focus so excessively on the influences in the relevant environment that they miss out the trends and issues in the general environment that really matter.
- There is a danger of 'paralysis by analysis' meaning that environmental scanning can create an overload of information that may prevent timely action. Environmental scanning should not become a number-crunching or paper-pushing routine.
- The purpose of environmental scanning is to uncover influences that matter for the future of the organisational strategic decision-making. This purpose should not be lost and environmental scanning should not be used for purposes other than this. For instance, scanning results cannot be used for political manoeuvring by strategists to favour their own viewpoint, functional interests, or departmental aims.
- Environmental scanning function should not be integrated too closely with the operational and functional activities of the organisation. This means that it should not become a line function thus aligning it too closely with the interests of those activities.
- Similarly, environmental scanning should not be too far from the realities of the organisation making it an impersonal, staff function.

After the environmental scanning process is complete, the strategists are faced with the question of how to structure the mass of information available to them. The problem boils down to sifting the information in such a manner that a clear picture emerges of what opportunities and threats operating in different sectors of the environment face the organisation.

4.4 APPRAISING THE ENVIRONMENT — LO 4

In order to draw a clear picture of what opportunities and threats are faced by the organisation at a given time, it is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal, identifying the environmental factors, and structuring the results of environmental appraisal.

Factors Affecting Environmental Appraisal

Given the same environmental conditions, no two strategists or two organisations would appraise the environment in a similar fashion. This is due to the many factors that affect the process of environmental appraisal. We could identify these factors by classifying them into three categories: the strategist-related, organisation-related, and environment-related factors.

1. Strategist-related factors There are many factors related to the strategist which affect the process of environmental appraisal. Strategists play a central role in the formulation of strategies. So their characteristics such as age, education, experience, motivation level, cognitive style, ability to withstand time pressures, and strain of responsibility have an impact on the extent to which they are able to appraise their organisation's environment and how well they are able to do it. Apart from these factors, related to strategists as individuals, group characteristics could be the interpersonal relations between the different strategists involved in appraisal, team spirit, and the power equations operating between them. Information consciousness is yet another variable denoting the attitude of top managers towards environmental scanning and the communication patterns established among managers within the organisation.[19]

2. Organisation-related factors Like those of strategists, many characteristics of the organisation also have an impact on the environmental appraisal process. These characteristics are the nature of business the organisation is in, its age, size and complexity, the nature of its markets, and the product or services that it provides. Another variable identified is of information climate assessed through the information infrastructure implemented, i.e. the processes, technologies and people used in information acquisition and handling.[20]

3. Environment-related factors The nature of environment facing an organisation determines how its appraisal could be done. The nature of the environment depends on its complexity, volatility or turbulence, hostility, and diversity. Information processing perspectives suggest that scanning activity will increase in response to increasing environmental uncertainty. Social cognition perspectives suggest that scanning decreases at high and low levels of uncertainty since useful information is either unattainable or is already known.[21]

In sum, how well an environmental appraisal is done depends on the strategists, their organisations, and the environment in which their organisations exist. Before strategists can structure the environmental appraisal, it is necessary to identify the environmental factors.

Identifying the Environmental Factors

Environmental scanning results in a mass of information related to different sectors of the environment. Without a technique to deal with this information, a strategist would be at a loss to comprehend and analyse the environmental influences. These influences, as we have seen, are the events, trends, issues, and expectations of different interested group. Exhibit 4.11 provides a matrix which can help a strategist identify the high priority environmental influences (termed as 'issues' by Boulton whom we refer for this matrix).

Exhibit 4.11 Identifying High Priority Environmental Issues

	Impact on Business		
Probability of impact	High	Medium	Low
High	Critical	High priority	Low priority
Medium	High priority	High priority	Low priority
Low	To be watched	Low priority	Low priority

Source: Adapted from the W.R. Boulton, *Business Policy: The Art of Strategic Management* (New York: Macmillan Publishing Co., 1984): 120.

Environmental scanning leads to the identification of many issues that affect the organisation. These issues could be judged on the basis of the intensity of their impact on the business of the organisation and the relative probability of such an impact. In such a manner, environmental issues (and all the influences) could be distributed among the nine cells of the matrix. The issues which are most likely to have a high level of impact on the organisations are the critical issues and need immediate attention of the strategists. High priority issues are those which have a medium to high probability of impact while those currently having a high level of impact but a low probability of occurrence need to be kept under watch. All other issues could be considered as being of low priority but still requiring continuous monitoring as conditions may change later. In this way, strategists could narrow the range of environmental issues they have to focus their attention upon. These issues help in structuring of the environmental appraisal, when divided into opportunities and threats and allocated to different sectors of the environment.

Structuring Environmental Appraisal

The identification of environmental influences is helpful in structuring environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. Structuring the environmental appraisal is a difficult process as environmental issues do not lend themselves to a straightforward classification into neat categories. An influence may arise simultaneously from more than one sector of the environment. Strategists have to use their experience and judgement to place the different environmental influences to where they mainly belong so that clarity emerges.

There are many techniques available to structure the environmental appraisal. One such technique, suggested by Glueck, is that of preparing an environmental threat and opportunity profile (ETOP) for an organisation.[22]

The preparation of ETOP involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation. A comprehensive ETOP requires subdividing each environmental sector into sub-factors and then the impact of each sub-factor on the organisation is described in the form of a statement. A summary ETOP may only show the major factors for the sake of simplicity. Exhibit 4.12 provides an example of an ETOP prepared for an established company which is in the bicycle industry. The main business of the company is in sports cycle manufacturing for the domestic and exports market. This example relates to a hypothetical company but the illustration is realistic based on the typical conditions in the Indian business environment.

Exhibit 4.12 Environment Threat and Opportunity Profile (ETOP) for a Bicycle Company

Environmental Sectors	*Nature of impact*	*Impact of each sector*
Economic	↑	Growing affluence among urban consumers; rising disposable incomes and living standards.
Market	→	Organised sector a virtual oligopoly with four major manufacturers, buyers critical and better informed; overall industry growth rate not encouraging; growth rate for niche segments like sports, trekking, racing, and fancy city cycles is high; largely unsaturated demand in niche segments; slender margins; traditional distribution systems.
International	↓	Global imports growing but India's share shrinking; India second globally as manufacturer, consumer, and exporter after China; major importers are the US and EU but India exports mainly to Africa; threat of cheap Chinese imports.
Political	→	Bicycle principal mode of transport for low and lower-middle income; industry too small for any major political attention
Regulatory	→	Parts and components reserved for small-scale industry, bicycle industry a thrust area for exports; regulatory restrictions heavy; duty drawback rates lowered.
Social	↑	Environment- and health-friendly transport option; wide usage like commuting to work or school, and as recreation and physical fitness equipment; easier negotiating traffic congestions; customer preference for sports cycles which are easy to ride and durable.
Supplier	→	Mostly ancillaries and associated companies in small-scale sector supply parts and components; rising steel prices; increasing use of aluminium, industrial concentration in Punjab and Tamil Nadu.
Technological	↑	Technological upgradation of industry in progress; import process of machinery simple; product innovations ongoing such as battery-operated and lightweight foldable cycles.

Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact.

As observed from Exhibit 4.12, sports cycle manufacturing is an attractive proposition due to the many opportunities operating in the environment. Prospects in the economic, social, and technological sectors are bright. Market environment can throw up opportunities in the niche segment that the company operates in. The company can capitalise on the burgeoning demand by taking advantage of the various government policies and concessions that still exist despite low attention value of the industry. It can also take advantage of the high exports potential that already exists and has not been adequately capitalised upon. Since the company is an established manufacturer of bicycles, it has a favourable supplier environment with traditional ties binding it to its vendors. But contrast the implications of this ETOP for a new manufacturer who is planning to enter this industry. Though the economic, social, and technological environment sectors would still be favourable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, and have access to the latest technology and have the facilities to use it.

The preparation of an ETOP provides a clear picture to the strategists of which sectors, and the different factors in each sector, have a favourable impact on the organisation. By the means of an ETOP, the organisation knows where it stands with respect to its environment. Obviously, such an understanding can be of a great help to an organisation in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment.

Before the formulation of strategies can be undertaken strategists have to assess whether the organisation has the required strengths or whether it has weakness which can affect its capability to take advantage of the opportunities. This assessment is done through an analysis of the strengths and weakness of the organisation and forms a part of the SWOT analysis. The strengths and weakness can be analysed through organisational appraisal which is the subject matter of the next chapter.

Summary by Learning Objectives

The subject matter of the chapter is environmental appraisal, which is the process of identifying opportunities and threats facing an organisation for the purpose of strategy formulation.

The main points covered in this chapter are as follows:

LO 1 *Describe the concept of environment in the context of strategic management*

- In the first section of this chapter, we have attempted to clarify the concept of environment. The environment is complex, dynamic, multifaceted, and has a far-reaching impact on an organisation. It can be divided into external and internal parts.

LO 2 *Name, describe, and demonstrate understanding of eight environmental sectors*

- The relevant environment can be classified into different sectors. We have divided the relevant environment into eight sectors. The second section of this chapter deals with these eight environmental sectors. The sectors are the market, technological, supplier, economic, regulatory, political, socio-cultural, and international environment.
- For each sector, we have explained, through appropriate illustrations, the type of factors and influences which operate in that part of the environment, the significance of these factors for the strategic management of an organisation, in general, and strategy formulation in particular.

LO 3 *Describe the process of environmental scanning*

- The different sectors of the environment have to be continuously monitored by strategists for factors that may create opportunities or threats. Such a monitoring is done through the process of environmental scanning that is the process by which organisations monitor their relevant environment to identify opportunities and threats affecting their business.
- The factors to be considered for environmental scanning are events, trends, issues, and expectations of different interested groups.
- The approaches used for environmental scanning are the systematic, ad hoc, and processed-form approaches.
- The various sources of information tapped for collecting data for environmental scanning could be classified in different ways. There could be formal and informal sources; and written and verbal sources. In terms of origin, data sources could be external and internal.

- A variety of methods and techniques are available for environmental scanning. There are formal and systematic techniques as well as intuitive methods available. Strategists may choose from among these methods and techniques those which suit their needs.

LO 4 *Prepare environmental threats and opportunities profile (ETOP) for an organisation*

- The structuring of the environmental appraisal is done by the preparation of the environmental threats and opportunities profile (ETOP) that involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation.

Having considered the external environment now is the time to focus on the internal environment. The next chapter deals with organisational appraisal.

Exercises

Short-answer Questions

1. What is the concept of environment in strategic management? **(LO 1)**
2. What aspects does environmental appraisal deal with? **(LO 1)**
3. Mention some of the important characteristics of environment. **(LO 1)**
4. Distinguish between general and relevant environment. **(LO 1)**
5. Differentiate clearly between the external and internal components of environment. **(LO 1)**
6. For each of the eight sectors of environment identified in the chapter, answer the following questions. (a) What does a particular environment (social, political, etc.) consist of? (b) Mention the important factors and influences operating in that environment (c) How does that particular environment affect the strategic management process within an organisation? **(LO 2)**
7. Explain these terms clearly in the context of environmental scanning: (a) events (b) trends (c) issues (d) expectations. **(LO 3)**
8. How does the systematic approach to environmental scanning differ from the processed-form approach? **(LO 3)**
9. What points need to be kept in mind while using a particular source of environmental information? **(LO 3)**
10. Name some important institutional publications in India which could serve as a source of environmental information. **(LO 3)**
11. How can internet be used as a source of information for environmental scanning? **(LO 3)**
12. What points need to be considered while using a particular method or technique for environmental scanning? **(LO 3)**
13. What are the pitfalls in using environmental scanning? **(LO 3)**
14. What strategists-related factors affect environmental appraisal? **(LO 3)**
15. Suggest an approach through which strategists could narrow down the range of environmental factors they have to focus upon. **(LO 3)**
16. How is a summary ETOP prepared? **(LO 4)**
17. What information does an ETOP contain? **(LO 4)**

Assurance of Learning Exercises

1. Describe some of the important characteristics of environment and demonstrate how a strategist can understand it better dividing it into external and internal components and general and relevant environment. **(LO 1)**
2. Analyse these trends and extrapolate their implications for strategy formulation within companies: (a) growing size of the middle class in India (b) rising population of aged people (c) crisis in the higher education sector (d) spread of the Internet culture (e) deplorable state of public utilities such as power and road network. **(LO 1, LO 2)**
3. Considering any organisation of your choice, define its relevant environment by dividing it into convenient and capable of being analysed sectors. What major factors and influences are currently operating in each of the sectors of the relevant environment of your chosen organisation? **(LO 1, LO 2)**
4. Which sectors of environment are currently relatively more important, in general, in the Indian context? What sectors are likely to gain importance in the near future? **(LO 2)**
5. Describe the different aspects of environmental scanning necessary for identifying opportunities and threats in a company's environment. **(LO 3)**
6. What different types of factors affect the process of environmental appraisal? **(LO 3)**
7. Select any organisation of your choice. Identify the high priority environmental factors in its relevant environment. Use this information to prepare a summary ETOP for the organisation. **(LO 4)**

Review Case

WHAT LIES IN STORE FOR THE RETAILING INDUSTRY IN INDIA?*

India is not known as the 'nation of shopkeepers' yet has as 5 million retail outlets of all shapes and sizes. Some other optimistic estimates place the number as high as 15 million. Whatever be the number, India can claim to have the highest number of retail outlets per capita in the world. But a large majority of these are small outfits occupying an average 500 square feet in size, managed by family members, having negligible investment in land and assets, paying little or no tax, and known as the *kirana dukaan* ('mom and pop' stores in the US or the corner grocery stores in the UK). These are estimated on the higher side to be about 12 million. These outlets offer mainly food items and groceries—the staple of retailing in India. Customer contact is personal and one-on-one often running through generations. There are a limited number of items offered often sold on credit the payment to be collected at the end of the month. The quality of items is standard with moderate pricing.

There is considerable hype about the growth and prospects of organised retailing industry in India possibly because of the keen interest of the international retailers. It must be noted, however, that organised retailing constitutes barely 7.5 per cent of the total retailing industry in India in 2013 and expected to rise to 10 per cent by 2018. The rest is under the control of unorganised, informal sector of *kirana dukaans*. Market research agencies and consultants come up with encouraging forecasts about this segment of the retailing industry. For instance, A.T. Kearney's Global Retail Development Index ranks 30 emerging countries on a 100-point scale. Its 2007-ranking placed India at number one for three consecutive years dropping to rank 20 in 2014, an indication of how optimism can be ephemeral when country attractiveness and operating risks are taken into account. Overall, the Indian retailing industry contributes 18 per cent to GDP. It is expected to grow from US $520 billion in 2013 to US $950 billion by 2018. The size of the organised retailing industry is estimated at US $40 billion in 2013 and projected to grow at a compound annual growth rate of 19 per cent to US $95 billion by 2018. High potential is projected in the key retail segments such as apparel, food, mobile and telecom, jewellery, and pharmacy among others.

The economic environment in the post-liberalisation period after 1991 had created several factors that have made high growth of the organised retailing industry possible. India's impressive economic growth rates were the prime driver of increasing disposable incomes in the hands of consumer. The growing size of the consuming class in India in tandem with the entry and expansion of organized sector players in recent years has set the pace for corporate investment in retail business. Practically every major Indian business group have been looking for opportunities in the growing retailing industry. Among them are the big names in the Indian corporate sector such as the Aditya Birla group, Bharti, Godrej, Indian Tobacco Company (ITC) group, Mahindras, Reliance, R.P. Goenka (RPG), Tatas, and the Wadia group. There are major retail brands from companies such as Future Group, FabIndia, Raheja Group, and Gitanjali. Mergers and acquisitions have been the popular strategy by the companies to adopt inorganic expansion.

The international environment presently is replete with examples of the fast-paced growth of retailing industry in many developing countries around the world. In the post-liberalisation period, there is more openness and awareness of the international developments among Indians. The ease of travel abroad and the exposure through television and Internet have increased the awareness of the urban Indian consumer to the convenience of modern shopping. The modern retail formats thus have gained acceptance in India. Single-brand retailers such as Bosch, Columbia Sportswear, Michael Kors, and Stuart Weitzman have opened retail outlets. Carrefour, Metro AG, Tesco, and Wal-Mart are the international players already operating in India with several others such as Ingvar Kamprad Elmtaryd Agunnaryd (IKEA) and Liberty Shoes having plans to enter soon. These international companies bring to India the latest developments in the retailing industry and help to set up benchmark for the domestic players.

The market environment is one of the most significant in terms of the growth and prospects of retailing industry in India. In terms of geography, the reach of the organised retailing industry has been growing. In addition to the megacities other cities are also witnessing a boom in organised retail activity. Retailers are now trying to focus on Tier II and Tier III cities which are relatively smaller cities. There are interesting possibilities regarding the retail formats. Traditionally street carts, pavement shops, *kirana* stores, public distribution system, kiosks, weekly markets, and such other formats are unique to India and have been in existence for a long time. At present, most organized retail formats are imitations of those used abroad. These include hypermarkets and supermarkets, convenience stores, department stores, and specialty chains. Among these formats, a notable trend has been the development of integrated retail-cum-entertainment centres and malls as opposed to stand-alone developments. Besides these, there are some attempts at indigenous formats aimed at the rural markets. Retail format is an area of organisational learning where the players are trying to replicate and adapt the international business models to Indian conditions. Online retailing is a big potential area with expected high growth. Cash-on-delivery options have already proved successful though inventory management and logistics and infrastructural bottlenecks remain challenging. Combinations of click-and-brick are being used by many existing consumer goods companies. Pricing is an important issue in the retailing industry. Generally, the bulk buying yield lower costs of procurement for the big retailers a part of which they pass on to the customer in the form of lower prices. In food retailing, for instance, there is a clear trend of low prices being the determining factor in purchase decisions by the cost-conscious Indian consumer. But, lower prices may not be a major issue with the higher-income groups that may place greater emphasis on the quality of products and retail service, store ambience, and convenience of shopping. For the majority of Indian consumers, however, price is likely to remain a significantly important issue in purchase decision. Competition has already accelerated with many Indian business groups having entered or likely to enter this booming industry.

The political environment in India is ambiguous in terms of its support to the organised retailing industry. This is obvious as the unorganised sector employs nearly 8 per cent of the Indian population and is widely spread geographically. The overwhelming presence in terms of unorganised sector in the total retailing industry also is a significant political issue. In a democracy, the politics of numbers make it imperative for the political class to adopt an ambiguous stand. In some cases, politicians have acted in favour of the unorganised sector by disallowing the setting up of large retail outlets in some states. Overall, however, there is ambiguity as there are several environmental trends in favour of the development of the organised retailing industry.

In the regulatory environment there has been gradual easing of the restrictions albeit at a slow pace in view of the ambiguous political stance as indicated above. In India, the retailing industry is categorised into two: single-brand and multi-brand retail trading. Foreign direct investment under single-brand retailing is permitted to 100 per cent while for multi-brand retailing there is a cap of 51 per cent with government approval and conditionalities. Liberalisation of FDI policies in retail, expected adoption of goods and services taxation system and further clarity on provisions regarding sourcing, investment in back-end, and limiting the role of regulation are some factors that are expected to make life easier for the industry participants.

The socio-cultural environment offers many interesting insights into the changing tastes and preferences of the urban and semi-urban Indian consumer. There are several encouraging signals: there is a large rural market to be tapped; rising disposable incomes; increasing urbanisation, highly aware and affluent young population, growing number of working women, and changing consumer preferences are some of the major factors in the socio-cultural environment. A majority of India's consumers are young and these people have deep roots in the local culture and traditions yet are eager to get connected and know the outside world. This group constitutes people who are enthusiastic spenders and like to visit the new format retail outlets for the convenience and time-saving they offer. Malls are also being perceived as not just places for shopping but for spending leisure time and meeting places. There is the emergence of a combination of the retail outlet and entertainment centres having multiplexes, with food courts and video game parlours. But there are some pitfalls too. For instance, organised retailing in India has had to deal with the misconception among middle-class consumers that the modern retail formats being air conditioned, sophisticated places are bound to be more expensive and not welcoming to the masses.

The supplier environment probably offers the biggest constraint on the growth of the retailing industry in India. Reaching India's consumers cost effectively is a distribution nightmare owing to the sheer geographical size of the country and the presence of traditional, fragmented distribution and retailing networks, and erratic logistics. For instance, the apparel segment that is one of the two top segments—the other being food—have had to invest in back-end processes to support supply chains. Supply chain management and merchandising practices are increasingly converging and apparel retailers are establishing collaboration with their vendors. Another area of concern is the severe shortage of skills in retailing. Human resource development for the retailing industry has picked up lately but may take time to fill the gap caused due to the shortage of personnel. On the brighter side, developments such as favourable real estate and infrastructural development, easy availability of credit and bank loans, innovative physical and online channels, and increasing service-orientation in company cultures may make the supplier environment more prospective.

The technological environment for the organised retailing industry straddles many areas such as IT support to supply chain management, logistics, transportation, and store operations. Some global retailers have demonstrated that innovative use of technology can provide substantial strategic advantage. The large number of store items, the diversity of sourcing, and the gigantic effort required to co-ordinate actions in a large retail context is ideal for using IT as support function. For instance, innovative use of IT can help in a wide variety of functions such as quick information processing and timely decision-making, reduction in processing costs, real-time monitoring and control of operations, security of transactions, and operations integration. The availability of supply chain management, customer relationship management, and merchandising software can help much in performing activities such as ordering and tracking inventory items, warehousing, transportation, and customer profiling.

Overall, the Indian scenario offers an interesting mix of possibilities and challenges. A successful model of large-scale retailing appropriate for the Indian context is yet to emerge. The modern retail formats accepted globally are in the process of implementation and their acceptability is yet to be established. The retailers are wary and involved in improving back-end operations, adopting low-cost business models, controlling capital spending and operational costs and reducing store size with careful selection of locations.

Questions

1. Identify, at least, five opportunities and five threats for domestic and foreign companies from this review case of the retailing industry in India. **(LO 2, 3)**
2. Prepare an ETOP for a company interested in entering the retailing industry in India. **(LO 4)**

Notes and References

1. Website of Ministry of Food Processing Industries, Government of India at *http://www.mofpi.nic.in/*; Website of Agricultural and Processed Food Products Export Development Authority (APEDA) at *http://www.apeda.gov.in/apedawebsite/six_head_product/PFV_OPF.htm*; Indian Brand Equity Foundation report on food processing industry in India, September 2014. Available at *http://www.ibef.org/industry/indian-food-industry.aspx*; FICCI survey on challenges in food processing industry 2010, available at *http://www.ficci.com/SEDocu-*

ment/20073/Food-Processing-Bottlenecks-study.pdf; A Brief Report on Food Processing Sector in India, September 2013. Available at *http://www.asa.in/pdfs/surveys-reports/Food-Processing-Sector-in-India.pdf*; *Processed Food Industry* online magazine at *http://www.pfionline.com/*. All websites retrieved on 28 November, 2014.

2. K. Davis, *The Challenge of Business* (New York, N.Y.: McGraw-Hill, 1975): 43.
3. See PWC's annual CEO survey here: *http://www.pwc.in/global-ceo-survey-2014/index.jhtml* Retrieved 3 September, 2014.
4. Gurcharan Das, 'Indian Business Families,' 10 September, 2002. Available at *http://ccs.in/gdas/?p=60#more-60* Retrieved 14 October, 2007.
5. Population statistics accessed from Census of India and Indiainfolinepages.com. See here: *http://www.dataforall.org/dashboard/censusinfoindia_pca/* and *http://www.indiaonlinepages.com/population/india-current-population.html* Both sites retrieved on 4 September, 2014.
6. Data related to human development index including gender-related development index can be accessed here: *http://hdr.undp.org/en/content/table-5-gender-related-development-index-gdi* Retrieved 4 September, 2014.
7. Kiran Karnik's comment quoted from FT.com available at *http://www.ft.com/cms/s/cd516aa8-749a-11db-bc76-0000779e2340.html* Retrieved 29 January, 2007.
8. B. Petrov, 'The Advent of the Technology Portfolio,' in *Journal of Business Strategy*, Fall (1982):70–75.
9. Besides popular magazines (e.g. *Technology Review* published by MIT) and newspapers that forecast technological trends, consulting firms too are in the game. For an example, see the report 'Emerging Market Analysis: India's Top 10 Technology Trends and Drivers in 2014,' The report is available on Gartner's website at *http://www.gartner.com/document/2677015* and requires login and password. Retrieved 3 September, 2014.
10. C.D. Wadhva, *Environmental Scanning for Corporate Planning in India* IIMA Working Paper No. 25, (March 1974).
11. M. Kubr, ed. *Managing a management development institution* (Geneva: International Labour Organisation, 1982): 88–89.
12. L. Fahey, W.R. King, and V.K. Narayanan, 'Environment Scanning and Forecasting in Strategic Planning - The State of the Art,' *The truth about corporate planning: International research into the practice of planning*, ed. David Hussey (Oxford: Pergamon Press, 1983): 497.
13. D. LeBell and O.J. Krasner, 'Selecting Environmental Forecasting Techniques for Business Planning Requirements,' in *Academy of Management Review* (July 1977): 373–83.
14. Fahey, et al, *op. cit.*, 500–01.
15. L. Shuhua, 'Strategic Scanning and Interpretation Revisiting: Foundations for a Software Agent Support System – Part 2: Scanning the Business Environment with Software Agents,'*Industrial Management & Data Systems,* 98, no. 8 (1998): 362–72.
16. 'Satyam Helps Businesses Create and Simulate their Future with Futurus,' 20 July, 2005 *domain-b.com*.
17. B. Nanus, 'QUEST-Quick Environmental Scanning Technique,' in *Long Range Planning*, 15, no. 2(1982): 39–45.
18. G.S. Day and J.H. Paul: *Peripheral Vision: Seven Steps to Seeing Business Opportunities Sooner* (Boston, MA: Harvard Business School Press, 2006).
19. Z. Correia and T.D. Wilson,'*Scanning the Business Environment for Information: A Grounded Theory Approach,*'*Information Research,* 2, no. 4 (April 1997).
20. *Ibid.*
21. J.R. Hough and M.A. White,'Scanning Actions and Environmental Dynamism: Gathering Information for Strategic Decision Making,' *Management Decision,* 42, no. 5/6 (2004): 781–93.
22. W. F. Glueck and L.R. Jauch, *Business Policy and Strategic Management* (New York: McGraw-Hill, 1984): 120–21.
23. 'A new tale in retail,'*Business India,*13–26 October, 2014, 38–47; A.T. Kearney, *The 2014 Global Retail Development Index*™, at: *http://www.atkearney.in/documents/10192/4600212/Full+Steam+Ahead+for+Global+Retailers-+2014+Global+Retail+Development+In....pdf/6f55a59b-e855-4236-96cb-464c2ca01e91*; Retail Industry in India, *India Brand Equity Foundation* at *http://www.ibef.org/industry/retail-india.aspx*. All websites retrieved on 28 November, 2014.

5

CHAPTER

Organisational Appraisal

Learning Objectives

After reading this chapter you should be able to:

LO 1 Explain the manner in which strategic and competitive advantage is developed in an organisation
LO 2 Describe and give examples of the organisational capability factors
LO 3 Discuss the process of conducting organisational appraisal
LO 4 Review the major methods and techniques used for organisational appraisal
LO 5 Prepare Strategic Advantages Profile (SAP) for an organisation

Chapter Outline

Preview Case

STATE BANK OF INDIA BANKS ON ITS CAPABILITIES*

State Bank of India (SBI) is India's largest bank and a Fortune 500 company with Rs 26 trillion business size, an extensive network of more than 15,800 branches, 190 foreign branch offices and nearly above 43,500 automatic teller machines (ATMs) serving around 22 crore customers through its nearly 2,22,000 employees. It has five banking subsidiaries, seven joint ventures, seven foreign banking subsidiaries, and 11 non-banking subsidiaries. Its organisational capability profile offers an interesting study into the strengths and weaknesses, competencies, and capabilities of India's prime public sector bank.

Financial capability factors: SBI enjoys a comfortable capital position as it is adequately capitalised designed to deal with asset side risks and support the business growth. Its funding profile is strong, underpinned by its strong retail deposit base. State Bank of India's strong franchise gives it access to a steady source of stable retail funds. Its cost of deposits is optimum. Internal control systems are robust with risk and management audits besides covering credit, information systems, home office, and expenditure.

The bank maintains a healthy liquidity position owing to continual accretion to deposits, large limits in the call market, and significant surplus statutory liquidity ratio-related investments. State Bank of India is estimated to have a good earnings profile with diverse income streams. The bank's core fee income bolsters its revenue profile though there is a likelihood of a slowdown owing to the opening of government business like tax collection to other banks and increased competition. The bank's cost structure is rigid as fixed employee costs consume a major part of its operating expenditure. Pension liability is also a drag on the bank's finances. The bank's operating costs are likely to remain high in the medium term.

Marketing capability factors: SBI offers deposits and advances as basic services. In the deposit segment, the bank has been doing well focusing on retail instead of high-cost bulk deposits. In advances, the bank has a good record in the area of large and mid-corporate loans, agricultural loans, and auto, home, and education loans while facing problems in the area of small and medium enterprise loans. It offers banking through branches, ATMs, internet banking, and mobile banking. Among these there is sharp growth in mobile and internet customers. State Bank of India is also active in e-commerce through tie-ups with merchants.

State Bank of India had been losing market share over decades till 2006 in the face of the onslaught of competition. There was a consistent gap between deposit and credit growth. Since then the situation has improved. As a leading public sector bank, it is obliged to shoulder social responsibilities such as investing in priority sectors. The bank has been unsuccessfully trying to unlock its brand equity. It has strong retail base and wide geographical reach. The bank's fund-based and fee income earnings are diversified across industries, regions, asset classes, and customer segments.

Operations capability factors: SBI, through its non-banking subsidiaries, offers a host of financial services, viz., merchant banking, fund management, factoring, primary dealership, broking, investment banking, and credit cards. It has life insurance business through its subsidiary, SBI Life Insurance Company Limited. State Bank of India along with its associate banks offers a wide range of banking products and services across its different client markets. The asset quality of bank, a vital performance indicator in the banking industry is of average level. It has a high level of gross non-performing assets, a bane of the banking industry anywhere. It faces challenges to develop effective credit appraisal and collection systems in order to contain the non-performing assets in retail finance.

The bank also has a clear technology strategy that should enable it to compete with the new generation private sector banks in customer service and operational efficiency. The increasing focus on upgrading the technology back-bone of the bank will enable it to leverage its reach better, improve service levels, provide new delivery platforms, and improve operating efficiency to counter the threat of competition effectively.

Personnel capability factors: Being the largest bank in the country has its downsides. It faces the dual problems of overstaffing in general and understaffing in certain other critical areas. There is a need to reduce and redeploy the workforce but this is a sensitive industrial relations issue in a country where bank unions are strong and aggressive. The bank has the uphill task of focusing on improving the productivity and business secured per employee while changing the attitude of employees especially with respect to customer service and interface at the branch levels. There has been marginal growth in business per employee over the years with recruitment of younger employees who are seen as more efficient and productive. There is a large set-up for staff training with in-house institutes and learning centres.

Information management capability factors: The SBI's centralised core banking solutions is the major information technology (IT) system that is designed to support a billion accounts and 250 million transactions per day. The bank has a widely-dispersed ATM network, internet banking portal, and mobile banking services. The information management capabilities, which SBI Group seeks to develop using the core banking solution, include personalised customer service, 24X7 banking through diverse types of delivery channels, fast product launch, and customer relationship management.

General management capability factors: The corporate governance structure consists of its board of directors, two managing directors, and the committees. The bank has representatives of workmen and employees on the board besides executive, nominated, and independent directors. The general management of the bank is quite competent. It has leveraged its corporate relationships, pursued business growth selectively, and has judiciously not competed based on interest rate. State Bank of India has a good record in the area of corporate social responsibility where it has received many awards. It has introduced a code of Fair Banking Practices.

The performance indicators used by the SBI are the usual financial metrics such as total income, operating profit, net profit, and the like besides net interest margin, capital adequacy ratio, gross and net non-performing assets ratios, and strategic parameters such as business per employee and profit per employee. State Bank of India focuses on four areas of strategic concerns: non-performing assets (NPA) reduction, risk mitigation, cost control, and technology for better customer service.

Public sector banks such as the SBI have generally responded well to the challenges in the post-liberalisation era in India. They have enthusiastically joined the retail revolution leveraging technology to cater to aspiring customers across the vast geography of India. They have been adjusting to the new prudential norms including Basil III. They have altered business models and repositioned their branches as sales and service centres.

Overall, the case of SBI is a saga of transformation of an old, hierarchical, transaction-oriented, public sector bank to a modern and technologically advanced universal bank that is valiantly trying to leave behind its painful legacies of NPAs, burden of high employee costs, and unionised workforce. The banking industry in India is currently under intense phase of change. The public sector banks are trying to consolidate on the basis of their large network and customer base. The private sector banks are adopting mergers and acquisitions to increase their size. Two new banks are in the pipeline. The trend is towards consolidation around well-identified core competencies.[1]

Like individuals all organisations such as the SBI, we describe in the preview case, have strengths and weaknesses that lead to their having capabilities. These capabilities stand the organisations in good stead when they compete for resources, customers, and market share. Notice how the bank tries to work in different functional areas as it tries to cope with competition from agile private bank outside in the markets. In strategic management, we give a lot of importance to an organisation's capabilities as these are central to their achieving strategic advantage for gaining long-term success.

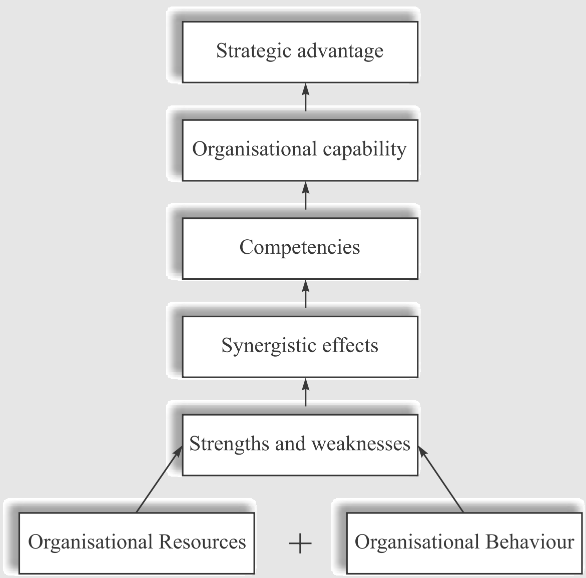
The appraisal of the external environment of a firm helps it to think of what it *might choose to do*. The appraisal of the internal environment, on the other hand, enables a firm to decide about what *it can do*. We attempt understanding the internal environment of an organisation in terms of the organisational resources and behaviour, strengths and weaknesses, synergistic effects, and the competencies that create strategic advantage.

5.1 DYNAMICS OF INTERNAL ENVIRONMENT

LO 1

An organisation uses different types of resources and exhibits a certain type of behaviour. The interplay of these different resources along with the prevalent behaviour produces synergy or dysergy (sometimes, called antergy) within an organisation, which leads to the development of strengths or weaknesses over a period of time. Some of these strengths make an organisation especially competent in a particular area of its activity causing it to develop competencies. Organisational capability rests on an organisation's capacity and the ability to use its competencies to excel in a particular field thereby giving it strategic advantage.

Exhibit 5.1 Framework for the Development of Strategic Advantage by an Organisation



The resources, behaviour, strengths and weaknesses, synergistic effects and competencies of an organisation determine the nature of its internal environment. Exhibit 5.1 depicts a diagram showing the framework that we adopt for explanation of the process of development of strategic advantage by an organisation. It is expected that readers of this book are aware of these terms in general. However, we explain each of these terms here to place them in the specific context of strategic management and business policy.

Organisational Resources

The dynamics of the internal environment of an organisation can be best understood in the context of the resource-based view of firms or the resource-based theory of strategy. According to Barney (1991), who is credited with developing this view of strategy as a theory, a firm is a bundle of resources—tangible and intangible—that includes all assets, capabilities, organisational processes, information, knowledge, and the like. These resources could be classified as physical, human, and organisational resources. The physical resources are the technology, plant and equipment, geographic location, access to raw materials, etc. The human resources are the training, experience, judgement, intelligence, relationships, etc., present in an organisation. The organisational resources are the formal systems and structures as well as informal relations among groups.[2] Elsewhere, Barney says that resources of an organisation can ultimately lead to strategic advantage for it if they possess four characteristics, i.e. if these resources are valuable, rare, costly to imitate, and non-substitutable. The resource-based theory of strategic management holds that firms possess resources that are valuable and rare. These enable them to achieve strategic advantage. Other resources that cannot be imitated or substituted lead to superior long-term performance and sustainable strategic advantage.[3] Empirical studies over the years have generally supported the resource-based theory.[4]

We observe here that the resource-based theory is concerned with efficiency of resource utilisation. It clearly focuses on the internal environment of the firm and postulates that the strategic advantage would flow from the efficiency with which the resources would be utilised. When firms possess superior resources they enable them to produce more efficiently and better satisfy customer needs delivering better value for a given cost yielding superior strategic advantage to them.

Very few organisations, like individuals, are born with a silver spoon in the mouth; most organisations have to acquire resources the hard way. The cost and availability of resources are the most important factors on which the success of an organisation depends. If an organisation is favourably placed with respect to the cost and availability of a particular type of resource, it possesses an enduring strength which may be used as a strategic weapon by it against its competitors. Conversely, the high cost and scarce availability of a resource are a handicap which causes a persistent strategic weakness in an organisation.

But mere possession of resources does not make an organisation capable. Much depends on their usage within an organisation. The usage, in turn, is based on the organisational behaviour that we see next.

Organisational Behaviour

Organisational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organisation that create the ability of, or erect constraints to, the usage of resources. Organisational behaviour is unique in the sense that it leads to the development of a special identity and character of an organisation. Some of the important forces and influences that affect organisational behaviour are: the quality of leadership, management philosophy, shared values and culture, quality of work environment and organisational climate, organisational politics, use of power, and such other factors.

The perceptive reader would note that what we are proposing here is synthesising the hard side of an organisation, its resource configuration with the soft side of behaviour. The resources and the behaviour are thus the two essential elements in the organisation that collectively create the strengths and weaknesses.

Strengths and Weaknesses

Organisational resources and behaviour do not exist in isolation. They combine in a complex fashion to create strengths and weaknesses within the internal environment of an organisation. Strength is an inherent capability which an organisation can use to gain strategic advantage. A weakness, on the other hand, is an inherent limitation or constraint which creates a strategic disadvantage for an organisation. Financial strength, for example, could be a result of the simultaneous availability of sources of finances, low cost of capital or efficient use of funds. Another example is of a weakness in the operations area which may result due to a combination of inappropriate plant location and layout, obsolete plant and machinery, or uneconomical operations. Further, interaction between two factors in two different functional areas could also create strength or weakness. Lack of finance and obsolete machinery may act together to create weakness in the operations area. Later in the chapter, we will take up a comprehensive discussion of strengths and weaknesses in different functional areas within an organisation.

Strengths and weaknesses do not exist in isolation but combine within a functional area, and also across different functional areas, to create synergistic effects.

Synergistic Effects

It is the inherent nature of organisations that strengths and weaknesses, like resources and behaviour, do not exist individually but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage. In effect, what we have is a situation where attributes do not add mathematically but combine to produce an enhanced or a reduced impact. Such a phenomenon is known as the synergistic effect. Synergy is an idea that the whole is greater or lesser than the sum of its parts. It is also expressed as 'the two plus two is equal to five or three effect'.

Within an organisation, synergistic effects occur in a number of ways. For example, within a functional area, say of marketing, the synergistic effect may occur when the product, pricing, distribution, and promotion aspects support each other, resulting in a high level of marketing synergy. At a higher level, the marketing and production areas may support each other leading to operating synergy. On the other hand, the marketing inefficiency reduces the production efficiency, the overall impact being negative, in which case dysergy (or negative synergy) occurs. In this manner, synergistic effects are an important determinant of the quality and type of the internal environment existing within an organisation and may lead to the development of competencies.

Competencies, Core Competencies and Distinctive Competencies

On the basis of its resources and behaviour, an organisation develops certain strengths and weaknesses which when combined lead to synergistic effects. Such effects manifest themselves in terms of organisational competencies. Competencies are special qualities possessed by an organisation that make them withstand pressures of competition in the marketplace. In other words, the net results of the strategic advantages and disadvantages that exist for an organisation determines its ability to compete with its rivals. Other terms frequently used as being synonymous to competencies are unique resources, core capabilities, invisible assets, or embedded knowledge.

When an organisation develops its competencies over a period of time and hones them into a fine art of competing with its rivals it tends to use these competencies exceedingly well. The capability to use the competencies exceedingly well turns them into core competencies.

When a specific ability is possessed by a particular organisation exclusively or relatively in large measure, it is called a distinctive competence.

Many organisations achieve strategic success by building distinctive competencies around the critical success factors. Recall that critical success factors are those which are crucial for organisational success (for a detailed discussion, refer to Section 2.6) A few examples of distinctive competencies are as follows:

- Superior product quality on a particular attribute, say, a two-wheeler, which is more fuel efficient than its competitor products.
- Creation of a marketing niche by supplying highly specialised products to a particular market segment.

- Differential advantage based on superior research and development skills of an organisation, not possessed by its competitors.
- Access to a low-cost financial source like equity shareholders, willing to invest in an organisation, not available to its competitors.

A distinctive competence is 'any advantage a company has over its competitors because it can do something which they cannot or it can do something better than they can'.[5] It is not necessary, of course, for all organisations to possess a distinctive competence. Neither do all organisations, which possess certain distinctive competencies, use them for strategic purposes. Nevertheless, the concept of distinctive competence is useful for the purpose of strategy formulation. The importance of distinctive competence to strategy formulation rests with 'the unique capability it gives an organisation in capitalising upon a particular opportunity; the competitive edge it may give a firm in the market place; and the potential for building a distinctive competence and making it the cornerstone of strategy'.[6]

To some of you, we may seem to be making a hairline distinction here between the three terms: competencies, core competencies, and distinctive competencies. The difference, as you must have noted, lies in the degree of uniqueness associated with the net synergistic effects occurring within an organisation. You could think of them as being synonymous so long as you are able to make a distinction among them when necessary. Among the three, it is the term 'core competence' that has gained greater currency and popularity. The term 'core competence' has been popularised by Prahalad and Hamel as an idea around which strategies could be formulated by an organisation. Exhibit 5.2 presents an understanding of the idea of core competence.

Exhibit 5.2 Understanding the Idea of 'Core Competence'

C.K. Prahalad and Gary Hamel are mainly credited for the dynamic capabilities approach that considers strategic management as a collective learning process aimed at developing and then exploiting distinctive competencies by an organisation that are difficult to replicate by their rivals. Through a series of publications such as 'The Core Competence of the Corporation' (1990) and 'Strategy as Stretch and Leverage' (1993) in the *Harvard Business Review,* and a book *Competing for the Future* (1994) they have sought to propagate the idea of dynamic capabilities. This idea rests on the thinking that strategy depends on learning, and learning depends on capabilities of an organisation.

According to Prahalad and Hamel, the competitive (or strategic, as we call it here) advantage can be traced to the core competencies of an organisation. They take the analogy of a tree in describing core competence. 'The diversified corporation is a large tree. The trunk and major limbs are core products, the smaller branches are business units; the leaves, flowers, and fruit are end products. The root system that provides nourishment, sustenance, and stability is the core competence.'

Further they explain core competence as: '..... the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies..... it is also about the organization of work and the delivery of value..... (It) is communication, involvement, and a deep commitment to working across organizational boundaries. It involves many levels of people and all functions..... (and it) does not diminish with use.'

To identify a core competence, Prahalad and Hamel prescribe three tests:

- it should be able to provide potential access to a wide variety of markets;
- it should make a significant contribution to the perceived customer benefits of the end product; and
- it should be difficult for the competitors to imitate.

From the several examples of corporations that Prahalad and Hamel use to exemplify their concept of core competence, we quote here a few. Canon's core competence lies in optics, imaging, and microprocessor controls, Sony's in miniaturisation, Philip's in optical-media, 3M's in stick tape, and Honda's in engines and power trains.

The core competencies of these corporations have enabled them to operate in diverse markets offering different products. For instance, Canon has entered, and even dominated, diverse markets such as copiers, laser printers, cameras, and image scanners.

Source: C.K. Prahalad and Gary Hamel, 'The Core Competence of the Corporation,' in *Harvard Business Review,* 68, no 3 (May – June 1990): 79–91.

Several Indian companies took to the idea of core competence in right earnest in the 1990s. Examples abound of companies shedding businesses that are not in line with their perceived core competencies and focussing upon those that are. The Nandas of Escorts may perceive their core competence in light engineering, the National Institute of Information Technology (NIIT) in offering technology-based learning, Reliance Industries in skilful project management and execution, and S. Kumar sees its core competence in textile processing.

The idea of core competence, presented in Exhibit 5.2 seems to be a brilliant way to focus upon the latent strength of an organisation. Yet there are pitfalls of which an organisation has to be aware of. Core competencies can be developed but so also lost. They cannot be taken for granted. The ability of a core competence to provide strategic advantage can diminish over time as they do not exist perpetually. A dilemma associated with all core competencies is that they have the potential of turning into core rigidities.[7] External environment is responsible for this sad turn of events. New competitors may figure out a way to serve customers better or new technologies may emerge causing the existing company to lose its strategic advantage. Over-reliance on core competencies to the extent of becoming prisoners of one's own excellence may result in strategic myopia.

Core competence acting as a double-edged sword is demonstrated by the concept of strategic commitment enunciated by Pankaj Ghemawat. This means an organisation's commitment to a particular way of doing business, i.e. developing a particular set of resources and capabilities. Ghemawat's contention is that once a company has made a strategic commitment it finds it difficult to respond to new competition if doing so requires a break with its commitment.[8]

The idea of a single core competence as the bedrock for strategy formulation has not gone unchallenged. Critics feel that core competence, narrowly defined, may restrict an organisation's freedom to act when fresh opportunities in the business environment lure it towards a new direction. This is especially seen in the case of the Indian business environment where organisations need to be continually on the lookout for new opportunities emerging and be willing to act upon them by moving out of their core competence area. In a situation, where organised retail has taken off as an attractive opportunity, the country still remains under-insured, agriculture is yet to be exploited as an organised industry, and infrastructure sector needs overhauling. In such a scenario it would be imprudent for organisations to stick to a single core competence and deprive themselves of taking advantage of the opportunities. There might be several different core competencies required. In one case, it may be the ability to raise and manage capital, in other it might be the ability to manage the regulatory environment or simply the ability to roll out operations quickly.[9] No wonder, when asked to define his group's core competence, Kumar Mangalam Birla, of the Aditya Birla group, perceived it in a wide array of skills related to process industries, project management, operations, raw material sourcing, distribution and logistics, setting up dealer networks, commodity branding, and raising finance at a competitive cost.

Core or distinctive competencies serve a useful purpose if they are used to develop sustained strategic advantage through building up organisational capability which is the subject matter of the next sub-section.[10]

Organisational Capability

Organisational capability is the inherent capacity or potential of an organisation to use its strengths and overcome its weaknesses in order to exploit opportunities and face threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use. Without capability, resources—even though valuable and unique—may be worthless. Since organisational capability is the capacity or potential of an organisation, it means that it is a measurable attribute. And since it can be measured, it follows that organisational capability can be compared. Yet it is very difficult to measure organisational capability as it is, in the ultimate analysis, a subjective attribute. As an attribute, it is the sum total of resources and behaviour, strengths and weaknesses, synergistic effects occurring in, and the competencies of, any organisation.

Several thinkers in the field of strategy favour the line that capabilities are the outcomes of an organisation's knowledge base, i.e. the skill and knowledge of its employees. There is a growing body of opinion that considers organisations as reservoirs of knowledge in which case they are all learning organisations. In fact, the concept of organisational learning has spawned a whole school of strategy thought. Readers are advised to refer to Exhibit 5.3 that provides some basic understanding of the learning organisation. It is to be noted that while the concept of learning organisation is applicable to strategic management in a wider sense at several places, here we are referring to it in the specific context of capability that is seen as an outcome of organisational learning.

Exhibit 5.3 Understanding Organisational Learning

Crossan, Lane, and White (1997) define organisational learning as 'the process of change in individual and shared thought and action, which is affected by and embedded in the institutions of the organization'. Four basic processes of organisational learning are: *intuiting* (subconscious process of learning that occurs at the individual level); *interpreting* (sharing learning at the group level); *integrating* (collective understanding at the group level and taking it to the level of organisation); and *institutionalising* (incorporating learning across the organisation by embedding it in systems, structures, routines, and practices).

Nonaka and Takeuchi (1995) place value on knowledge creation within organisations through focussing on insight, intuition, and hunch that are gained through experience. Chris Argyris (1977) earlier, and later Garratt (1987), differentiated single-loop learning, which is a simple case about reviewing performance against targets and taking corrective action, from double-loop learning that questions the existing framework in which decisions take place. Organisations that engage in double-loop learning are able to discover new things and act in novel ways that enable them to adapt to changes and sustain and improve their capability and competitiveness.

Peter Senge (1990) popularised the concept of learning organisation which could be explained as an organisation skilled at creating, acquiring, and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights. From the classic term of Peter Drucker: the knowledge worker down to the emerging discipline of knowledge management—which is considered as gathering and managing intellectual capital that can be leveraged for generating internal responsiveness of organisation—the focus is clearly on the capability of an organisation for developing and sustaining strategic advantage.

Sources: C. Argyris, 'Double Loop Learning in Organizations,' in *Harvard Business Review*, (September-October 1977): 115–25; B. Garratt, *The Learning Organization* (London: Fontana / Collins, 1987; P.M. Senge, *The Fifth Discipline: The Art and Practice of the Learning Organization*, (New York: Doubleday / Currency, 1990); I. Nonaka and H. Takeuchi, *The Knowledge-creating Company: How Japanese Companies Create the Dynamics of Innovation*, (New York: Oxford University Press, 1995); M. Crossan, H. Lane, and R. White, 'Organizational Learning: Toward Theory,' Working Paper (London, Ontario: Richard Ivey School of Business, University of Western Ontario, 1997).

Strategists are primarily interested in organisational capability because of two reasons. First, they wish to know what capacity exists within the organisation to exploit opportunities or face threats in its environment. Second, they are interested in knowing what potential should be developed within the organisation so that opportunities could be exploited and threats could be faced in future.

Organisational capability is measured and compared through the process of organisational appraisal which is the subject matter of this chapter. A feasible approach to appraising the organisation is to start with the factors and influences operating within the organisation. These could be called the organisational capability factors.

But before we move on to a substantive description of the capability factors the last component of organisational appraisal, strategic advantage, has to be seen. This we do in the next sub-section.

Strategic and Competitive Advantage

Strategic advantages are the outcomes of organisational capabilities. They are the results of organisational activities leading to rewards in terms of financial parameters such as profit or shareholder value and/or non-financial parameters such as market share or reputation. In contrast, strategic disadvantages are penalties in the form of financial loss or damage to market share. Clearly, such advantages or disadvantages are the outcomes of the presence or absence of organisational capabilities. Strategic advantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantage: higher the profitability better is the strategic advantage. They are comparable in terms of historical performance of an organisation over a period of time or its current performance with respect to its competitors in the industry.

Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom the rewards or penalties could be measured. So, outperforming rivals in profitability or market standing could be a competitive advantage for an organisation. Competitive advantage is relative rather than absolute and it is to be measured and compared with respect to other rivals in an industry.

With rising competitiveness in industry, mainly owing to liberalisation and reform process, the usage of the term 'competitive advantage' has become more pronounced. The term 'competitive advantage' is more popular since it has been used as an important concept by the proponents of the positioning school of thought in strategy (see Section 1.4 for details for schools of thought). For instance, Michael Porter uses competitive advantage as one of the important concepts in his seminal contributions to the area of competitive strategy. Here, we take the position as described earlier. Strategic advantage is a broader concept while competitive advantage is a special case of strategic advantage when it is relative to identifiable competitors.

The obvious purpose of gaining strategic advantage is to empower organisations to realise their strategic intent.

5.2 ORGANISATIONAL CAPABILITY FACTORS

LO 2

Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development (R&D). It is also feasible to measure and compare capabilities in functional areas. Thus, a company could be considered as inherently strong in marketing owing to a competence in distribution skills. Or a company could be competitive in operations owing to superior research and development infrastructure.

Organisational capability factors (or, simply, capability factors) are the strategic strengths and weaknesses existing in different functional areas within an organisation which are of crucial importance to strategy formulation and implementation. Other terms synonymous to organisational capability factors are: strategic factors, strategic advantage factors, corporate competence factors, etc.

Different types of capability factors exist within the internal environment of an organisation. For the purpose of explanation, authors divide them into different functional areas. In this book, we follow an approach of dividing the organisation into six largely accepted and commonly understood functional areas. These are: finance, marketing, operations, personnel, information, and general management areas.

You will note that we are designating information and general management as functional areas within an organisation though these are not per se considered as such. These are rather overarching functions, concerned with integration and coordination of activities, covering the other four functional areas. But here we consider them as functional areas to draw attention to the fact that these two areas also merit consideration and possess embedded capabilities that have the potential to provide strategic advantage to organisations. It should be remembered, however, that a segregation of an organisation into our functional areas is arbitrary and organisations need to choose a basis for classification that would be the most relevant to their structure, functions, and activities. You would need to keep a particular scheme of segregation of the organisation into functional areas when you do a case analysis. For instance, a service organisation like a corporate hospital may have, besides different specialties, functions such as a laboratory, radiology unit, pharmacy, purchase and stores, personnel, housekeeping, and accounting. The organisation of such a type would have functional areas based on its typical activities.

We now describe capability factors in the six functional areas of finance, marketing, operations, personnel, information, and general management. For each capability factor, we first define that factor, point out some of the important elements that support capability in an area, give a few illustrations of typical strengths, and lastly, provide a few examples from real-life business situations to help enhance your understanding.

Financial Capability

Financial capability factors relate to the availability, usage, and management of funds and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the financial capability of any organisation are as follows:

1. *Factors Related to Sources of Funds:* Capital structure, procurement of capital, controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus, and relationship with lenders, banks and financial institutions.
2. *Factors Related to Usage of Funds:* Capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution, and relationship with shareholders.
3. *Factors related to management of funds:* Financial, accounting and budgeting systems, management control system, state of financial health, cash, inflation, credit, return and risk management, cost reduction and control, and tax planning and advantages.

Based on the factors mentioned earlier, a number of strengths and weaknesses can be found that affect the financial capability of an organisation. Exhibit 5.4 provides a few illustrations of strengths that support financial capability. The absence or unavailability of these factors leads to the occurrence of weaknesses. For instance, access to financial resources is strength while inaccessibility to them is a weakness.

Exhibit 5.4 Typical Strengths that Support Financial Capability

- Access to financial resources
- Amicable relationship with financial institutions
- High level of credit-worthiness
- Efficient capital budgeting system
- Low cost of capital as compared to competitors
- High level of shareholder's confidence
- Effective management control system
- Tax benefits due to various government policies.

The examples that follow show how strengths and weaknesses affect the financial capability of organisations:

- Gujarat Ambuja accumulated high savings from higher cement prices and sales volume growth over few years of its effective functioning. It did not make big moves for acquisitions for quite some time. Holcim of Switzerland, the world's second largest cement producer, took over equity in Gujarat Ambuja. This helped develop considerable financial strength to raise finances—whether equity or debt—at attractive rates globally.

- Murugappa family-business group, of the TI Cycles fame, has been respected for its sound financial management based on a mix of conservatism, reliability in financial dealings, and ability to raise finances for its various companies.
- Mahindra & Mahindra has followed a policy of being a low asset company accumulating a high surplus of nearly Rs. 2,000 crore with nearly half of it on its balance sheet. It also maintains a low debt-equity ratio raising its borrowing capacity substantially.
- Reliance Industries can afford to have Rs. 61,700 crore ($ 13.5 billion) capital expenditure plan based on its superior ability to raise finances, have easy access to financial resources, and an efficient capital budgeting system.
- Moser Baer considers its need to scale-up operations and evolve internal controls to meet exponential growth resulting in a need to constantly expand capacities requiring continuing capital investment as a weakness.

Marketing Capability

Marketing capability factors relate to the pricing, promotion, and distribution of products or services, and all the allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the marketing capability of an organisation are as follows:

1. *Product related factors:* Variety, differentiation, mix quality, positioning, packaging, etc.
2. *Price-related factors:* Pricing objectives, policies, changes, protection, advantages, etc.
3. *Place-related factors:* Distribution, transportation and logistics, marketing channels, marketing intermediaries, etc.
4. *Promotion-related factors:* Promotional tools, sales promotion, advertising public relations, etc.
5. *Integrative and systemic factors:* Marketing mix, market standing, company image, marketing organisation, marketing system, marketing management information system, etc.

Some of the typical strengths leading to marketing capability are given in Exhibit 5.5.

Exhibit 5.5 Typical Strengths that Support Marketing Capability

- Wide variety of products
- Better quality of products
- Sharply-focussed positioning
- Low prices as compared to those of similar products in the market.
- Price protection due to government policy
- High quality customer service
- Effective distribution system
- Effective sales promotion
- High-profile advertising
- Favourable company and product image.
- Effective marketing management information system

Here are a few real-life illustrations of organisations that possess either strengths or weaknesses which determine their marketing capability:

- Parle is a company well recognised by Indian consumers for its strong imagery and appeal. Several of its biscuits and confectionary products are market leaders in their category. Parle enjoys high market share with its biscuit brands such as Parle-G, Monaco, and Krackjack and confectionary brands such as Kismi, Mangobite, Melody, and Poppins.

- With 43 branches, over 150 area offices, and more than 10,000 trade partners, apart from two factories, LG India can take justified pride in its extensive distribution network. Such network provides it a significant marketing strength in the competitive fast-moving consumer goods (FMCG) industry it operates in.
- Pfizer India has the distinction of having brands that have achieved top rank in the pharmaceuticals industry. For instance, Becosules and Corex, two of its brands ranked at the top among all industry brands for a few years giving Pfizer recognition for its marketing strength.
- Real Value relies on effective management of perceptions in its marketing communications as a part of its strength in advertising to sell its products. It employed this in turning the product concept of fire extinguisher from being perceived as industrial equipment to a household necessity to be used as a portable fire suppressant. It achieved this through stoking the fear of fire through negative advertising.
- Several studies on small-scale industry point out the lacunae of ineffective marketing as one of the major causes of industrial sickness. Governments can help small companies to develop marketing strengths as is the case with himachalproducts.com. Himachal Pradesh local products such as Kangra miniature paintings, Chamba *rumaals*, Lahauli socks, Kullu and Pashmina shawls, etc. can now be bought on the Internet.

Operations Capability

Operations capability factors relate to the production of products or services, use of material resources, and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence operations capability of an organisation are as follows:

1. *Factors Related to the Production System:* Capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, etc.
2. *Factors Related to the Operations and Control System:* Aggregate production planning, material supply; inventory, cost and quality control; maintenance systems and procedures, etc.
3. *Factors Related to the R & D System:* Personnel, facilities, product development, patent rights, level of technology used, technical collaboration and support, etc.

Some typical strengths supporting the development of operations capability, are given in Exhibit 5.6.

Exhibit 5.6 Typical Strengths that Support Operations Capability

- High level of capacity utilisation
- Favourable plant location
- High degree of vertical integration
- Reliable sources of supply
- Effective control of operational costs
- Existence of good inventory control system
- Availability of high calibre R & D personnel
- Technical collaboration with reputed firms abroad

Few illustrations of how the existence of strengths or weaknesses can affect the operations capability of an organisation are provided as follows:

- JK Tyres pioneered radial tyres in India but has not been able to capitalise on it. Technologically, its competitors such as Bridgestone, who have access to latest tread patterns, have proved to be better. JK Tyres faces a strategic disadvantage owing to its lower operations capability.
- The Mumbai Tiffin Box Suppliers Association is a streamlined 120-year-old organisation with 4,500 semi-literate members providing quality door-to-door service to a large and loyal customer base. These

members called *dabbawalas* collect and deliver 1,75,000 packages within hours. The entire system depends on teamwork and meticulous timing.

- Coimbatore-based, Shanthi Gears is a reputed company in the industrial gears business. Its operations strengths lie in modern facilities it has that include a foundry, forge shop, fabrication and heat treatment equipment. It can produce customised power transmission products for specialised applications making it a market leader offering stiff competition to multinational companies.
- The capability to absorb imported technology is a great strength, as seen in the case of Lakshmi Machine Works. It is one of the five companies in the world to make the entire range of textile spinning machinery and the largest such company in India. It had collaboration with the Rieter Machine Works of Switzerland from which it got the latest technology. The technology absorption capacity has played an important role in the company's success as compared to its other competitors like Mafatlal Engineering Company and Texmaco.

Personnel Capability

Personnel capability factors relate to the existence and use of human resources and skills, and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the personnel capability of an organisation are as follows:

1. *Factors related to the personnel system:* Systems for manpower planning, selection, development, compensation, communication, and appraisal; position of the personnel department within the organisation, procedures and standards, etc.
2. *Factors related to organisational and employees characteristics:* Corporate image, quality of managers, staff and workers; perception about and image of the organisation as an employer, availability of developmental opportunities for employees, working conditions, etc.
3. *Factors related to industrial relations:* Union-management relationship, collective bargaining, safety, welfare and security; employee satisfaction and morale, etc.

Some of the typical strengths supporting the development of personnel capability are provided in Exhibit 5.7.

Exhibit 5.7 Typical Strengths that Support Personnel Capability

- Genuine concern for human resources management and development
- Efficient and effective personnel systems
- The organisation perceived as a fair and model employer
- Excellent training opportunities and facilities
- Congenial working environment
- Highly satisfied and motivated workforce
- High level of organisational loyalty
- Low level of absenteeism
- Safe and salutary working conditions

Here are a few illustrations of how strengths and weaknesses affect the personnel capability of organisations.

- Information Technology companies face a real problem attracting and retaining skilled employees. Covansys attempts to build a human resource-friendly company environment through various measures. Its personnel strengths arise from its efforts to implement fun-at-work schemes. Culture for growth, pioneered by founder-Chairman, Raj Vattikutti envisages employee empowerment in decisions related to their work and also their performance appraisal.

- Banking industry in India is highly competitive and it has been increasingly difficult for banks to attract and retain good employees. Attrition rates of staff are high. At Hongkong and Shanghai Banking Corporation (HSBC) India, the four Cs plan—communication, customer centricity, competitive benchmarking, and collaboration helps to create conducive human resource environment. Rewards come in the form of a variable bonus scheme, incentive schemes and stock options. Career progression is ensured through a career planning scheme.
- DRS Group, a Hyderabad-based, third-party logistics company realised the value of human resources in the fast-growing organised retail industry in India. To develop personnel strength, it set up an institute to train prospective employees in a variety of jobs at the lower end in the logistics industry and recruit them for the various divisions of the company.
- Metal Box India Ltd. was at one time a highly profitable company but owing to various problems in had to shut down several plants across the country. The root cause of the problem was the severe cash crunch which was largely the result of the high-cost structure owing to wage bills. This resulted in a serious dent in the personnel capability of the company. Besides, a large and militant workforce was a weakness which the company could not overcome.

Information Management Capability

Information management capability factors relate to the design and management of the flow of information from outside into, and within, an organisation for the purpose of decision-making and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the information capability of an organisation are as follows:

1. *Factors related to acquisition and retention of information:* Sources, quantity, quality, and timeliness of information, retention capacity, and security of information.
2. *Factors related to processing and synthesis of information:* Database management, computer systems, software capability, and ability to synthesise information.
3. *Factors related to retrieval and usage of information:* Availability and appropriateness of information formats, and capacity to assimilate and use information.
4. *Factors related to transmission and dissemination:* Speed, scope, width, and depth of coverage of information, and willingness to accept information.
5. *Integrative, systemic, and supportive factors:* Availability of IT infrastructure, its relevance and compatibility to organisational needs, upgradation of facilities, willingness to invest in state-of-the-art systems, availability of computer professionals, and top management support.

Exhibit 5.8 provides a few illustrations of strengths that support information management capability of an organisation.

Exhibit 5.8 Typical Strengths that Support Information Management Capability

- Ease and convenience of access to information sources
- Widespread use of computerised information system
- Availability and operability of high-tech equipment
- Positive attitude to sharing and disseminating information
- Wide coverage and networking of computer systems
- Presence of fool-proof information security systems
- Presence of buyers and suppliers conversant with IT applications
- Top management understanding of, and support to, IT and its application within organisation

Here are a few illustrations showing how strengths and weaknesses affect the information capability of organisations.

- Banking is a highly-integrated business. With wide geographical dispersal of branches, the need for computerisation and networking is crucial. The figures for SBI are quite revealing: 58 per cent of business and 75 per cent of profits for 1998–99 came from 1,672 computerised branches out of a total number of 8,963 branches. Obviously, computerisation and networking add to a bank's information capability and enhance its strategic advantage.
- NIIT, a major player in the IT industry, has been able to create a significant information capability for itself by networking its widely-dispersed offices in several countries around the world. Members of their senior staff are able to communicate with the help of Internet leading to effective and coordinated decision-making and action.
- An illustration of how information capability is used to develop the product is available in the case of Hero Motors. The foundation for sound product management is an extensive communication system, in the form of an information chain, interlinking various functional areas such as marketing, operations, purchase, materials management, and services.
- Web.Com (India) is a reputed software development company based at Guwahati. Its high information management capability is based on its PIPS (Project Implementation Planning Study) system that is based on a client-centred process. Through this process the company is able to determine the exact scope and nature of the implementation of a software solution that is a cost-effective amalgam of packaged software plus a client-specific solution.
- GE Money is one of the financial services providers to consumers and retailers in India, offering a range of financial products. Strong operations are backed by the latest IT to support the product lines. Its customer relationship management programme is claimed to be among the most successful customer retention programs in India and a single database housing nearly 2.4 million customer accounts, latest technology, and centralised operations ensure the high service standards in the industry.

General Management Capability

General management capability relates to the integration, coordination, and direction of the functional capabilities towards common goals and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the general management capability of an organisation are as follows:

1. *Factors related to the general management system:* Strategic management system processes related to setting strategic intent, strategy formulation and implementation machinery, strategy evaluation system, management information system, corporate planning system, rewards and incentives system for top managers etc.
2. *Factors related to general manager:* Orientation, risk-propensity, values, norms, personal goals, competence, capacity for work, track record, balance of functional experience, etc.
3. *Factors related to external relationships:* Influence on and rapport with the government, regulatory agencies and financial institutions; public relations; commitment to sustainability, consciousness of social responsibility; zeal for philanthropy, public image as corporate citizen, etc.
4. *Factors related to organisational climate:* Organisational culture, use of power, political processes, balance of vested interests; introduction, acceptance and management of change; nature of organisational structure and controls, etc.

A few typical strengths which influence the general management capability of an organisation are given in Exhibit 5.9.

Exhibit 5.9 Typical Strengths that Support General Management Capability

- Effective system for corporate planning
- Control, reward, and incentive system for top managers geared to the achievement of objectives
- Entrepreneurial orientation and high propensity for risk-taking
- Good rapport with the government and bureaucracy
- Top management conscious of sustainability impact of decisions
- Favourable corporate image
- Commonly being perceived as a good organisation to work for
- Development-oriented organisational culture
- Political processes used for consensus-building in organisational interest
- Effective management of organisational change

We provide here a few illustrations of organisations which possess either strengths or weaknesses which affect their general management capability:

- Infosys is not the India's biggest IT company (it's Tata Consultancy Services) nor is it having the widest market segment coverage (Wipro Technologies does). Yet, it evokes awe and respect owing to the middle-class success story of its legendary founders and their wealth sharing philosophy making it a global leader in the IT industry. It created an exemplary culture of transparency that is hallmark of its general management making it the best company to work for several times in annual magazine survey's like that of *Business Today*.
- When a new bank enters the banking industry it does not have a past track record to justify asking the general public to invest in it. Yes Bank leveraged its entry on the basis of the record of its top management instead. That belief was quickly proven true as the bank was able to target niche segments and using high technology to keep fixed costs under control was able to become operationally profitable after writing off pre-operative expenses in a short time. Thus, the quality of management proves to be a big strength in the case of Yes Bank.
- Shri Mahila Griha Udyog's (MGU) Lijjat Papad is a household name in India. A success story of the cooperative sector, MGU's impressive sales of Rs 300 crore is backed by its general management capability. This capability arises from decentralised top structure, guided by the Gandhian principle of Sarvodaya, where there are 21 managing members, all women, having consensus-based decision-making and veto power.
- The *Malayalam Manorama* is India's largest selling newspaper. Its roots go back to over a century to K.V. Mappilai who founded the company in 1888. Behind the success of the company is the unified, decisive, and unchallenged leadership of one family whose members have had a significant influence on the political and social life in Kerala. The stability provided by the family members and the favourable public image are great strengths for the enterprise. The newspaper is considered to be the best edited and the most professionally produced newspaper in Malayalam.

Till here, in this section, we have observed the manner in which the strengths and weaknesses in different functional areas have an impact on the capability of an organisation. It should be remembered, however, that dividing the organisation into different functional areas is done only for ease of understanding and analysis. In reality, capability factors within a functional area do not exist in isolation. Individual capability factors within a functional area, and across different areas, collide and combine in the internal environment in complex ways generating the overall organisational capability. Considering an example of intra-functional area interaction, the distribution capability of an organisation can only be utilised effectively if other marketing capability factors such as product, pricing, and promotion support its usage. Across different functional areas, if an organisation possesses a high level of operations capability, it can be used effectively only if other areas, such as marketing, support its usage. In such a manner, organisational capability is the net result of the different types of interaction taking place within the organisation.

At any given time, the internal environment of an organisational is virtually a melting pot of forces and influences. Strategists need to adopt some approach to deal with the complexity, and to comprehend, segregate, analyse, and synthesise the various factors to determine the organisational capability. All this can be done through the process of organisational appraisal.

5.3 CONSIDERATIONS IN ORGANISATIONAL APPRAISAL LO 3

The purpose of organisational appraisal (also referred to as internal appraisal, internal analysis, internal audit, organisational analysis, or company analysis) is to determine the organisational capability in terms of strengths and weaknesses that lie in the different functional areas. This is necessary since the strengths and weaknesses have to be matched with the environmental opportunities and threats for strategy formulation to take place.

In organisational appraisal, the various forces and influences operating within the internal environment of an organisation have to be analysed. As we have seen earlier, these forces and influences arise owing to the organisational resources, behaviour, synergistic effects, and the competencies of the organisation. Organisational capability is dependent on these forces and influences. By appraising the organisation, the strategists have to develop an assessment of their organisational capability to compete in the markets. There are a number of considerations in organisational appraisal.

The various considerations involved in organisational appraisal relate to the factors that affect appraisal, the approaches that can be adopted to appraise them, and the sources of information available to perform the appraisal. In the previous chapter, we have dealt with these issues as they pertain to the appraisal of the external environment. Much of what we said there is relevant here too and, therefore, the discussion is limited only to the main points.

Factors Affecting Organisational Appraisal

The factors that affect organisational appraisal relate to the strategists, the organisation, and to the internal environment. The various characteristics of strategists—as they matter so far as their general management capability is concerned—affect the manner in which organisational appraisal would be done. The nature of organisation and the internal environment— its complexity and diversity—determine how well the appraisal can be done. To understand how these factors affect organisational appraisal, consider a few situations.

- The ability of the strategists to comprehend complexity determines how well the different forces and influences, operating within the internal environment, are analysed.
- The size of the organisation affects the quality of appraisal. Larger organisations are usually more difficult to appraise than smaller ones.
- If the internal environment of an organisation is vitiated owing to opposing political forces and power games, the quality of appraisal is likely to suffer. A cohesive management team, on the other hand, is more likely to appraise the organisation better.

Approaches to Organisational Appraisal

The approaches adopted for preparing organisational appraisal may range from highly systematic to an ad hoc one. A systematic approach is adopted as a proactive measure to appraise the organisation and is used when the strategists opt for formal strategic planning systems. An ad hoc approach is generally used as a reactive measure in response to a crisis or an unusual development. In this approach occasional organisational studies may be undertaken, whenever required, to determine capability. It is true that not all organisations have a formal or even an ad hoc system to appraise their internal environment. For instance, in smaller organisations which operate under the entrepreneurial mode, the chief executive may do the appraisal by herself without the aid of formal systems or by conducting ad hoc studies. Overall, appraisal of organisation is an essential prerequisite to strategy formulation.

Sources of Information for Organisational Appraisal

The strategists need to tap different types of information sources for organisational appraisal. These sources may be verbal as well as written. They may also be internal as well as external sources. The assessment of organisational capability may rely on employees' opinion, company files and documents, financial statements, the management information system, and other internal sources. In a way, we could say that, the effectiveness of tapping the sources would largely depend on the information capability of an organisation.

For comparative appraisal with similar organisations in the industry and across industries, it may be necessary to have access to external sources of information like company reports, magazines, and journals. For systematic as well as ad hoc studies help may be sought from consultants. In sum, we could say that the several sources of information used for environmental appraisal could also be used for organisational appraisal.

Having dealt with the three considerations involved in organisational appraisal, we describe further the methods and techniques used for appraising an organisation.

5.4 METHODS AND TECHNIQUES USED FOR ORGANISATIONAL APPRAISAL LO 4

The methods and techniques used for organisational appraisal can be identical to those used for the performance evaluation of an organisation. But there is an important difference between performance evaluation and organisation appraisal. The emphasis in evaluating performance is on assessing the current behaviour of the organisation with respect to its efficiency and effectiveness and such an assessment is generally of a short-term nature. On the other hand, organisational appraisal is of a comprehensive and long-term nature and the emphasis is not only on current behaviour but also on what the organisation needs to do in order to gain the capability to compete in the market, take advantage of the available opportunities, and overcome the threats operating in its relevant environment.

Keeping in view the differences between performance evaluation and organisational appraisal, the methods and techniques used could be classified broadly in three parts as follows:

Internal analysis:
- VRIO framework
- Value chain analysis
- Quantitative analysis
    a. Financial analysis
    b. Non-financial analysis
- Qualitative analysis

Comparative analysis:
- Historical analysis
- Industry norms
- Benchmarking

Comprehensive analysis:
- Key factor rating
- Business intelligence systems
- Balanced scorecard

We now proceed to explain the methods and techniques of organisational appraisal.

Internal Analysis

The internal analysis of an organisation deals with an investigation into its strengths and weaknesses by focussing on factors that are specific to it. In contrast, as we will see a bit later, comparative analysis deals with an examination of strengths and weaknesses of an organisation in relation to its own past record or with reference to its competitors.

1. VRIO Framework The VRIO framework is the contribution of Barney who is credited with the enunciation of the resource-based theory.[11] We explained the resource-based theory in Section 5.2.

The acronym VRIO stands for valuable, rare, inimitable, and organised for usage. These terms are briefly described as under.

- *Valuable*: The organisational capabilities possessed by the firm that help it to generate revenues by capitalising on opportunities and / or to reduce costs by neutralising threats. Examples of valuable capabilities are: the ability to generate amicable relationship with government or to provide high quality after-sale service to customers,
- *Rare*: The organisational capabilities that are possessed by the firm exclusively or just by a few other firms in the industry. Examples of rare capabilities are: capability derived out of an exclusive location or the presence of highly satisfied and motivated workforce.
- *Inimitable*: The organisational capabilities possessed by the firm that are impossible, very difficult or not worthwhile to duplicate or substituted by the competitors. Examples of inimitable capabilities are: a favourable corporate image or the ability to acquire and integrate new businesses.
- *Organised for usage*: The organisational capabilities possessed by the firm that could be used through appropriate organisational structure, business processes, control systems, and reward systems that are present in the firm. Examples of a firm organised for usage are: the availability of competent R & D personnel and research laboratories to innovate new and improved products continually or the availability of potential business partners who are competent and willing to integrate their information systems with that of the firm.

Exhibit 5.10 presents a table that shows how the four attributes of organisational capabilities can contribute to strengths and weaknesses in a firm.

Exhibit 5.10 How Organisational Capabilities Contribute to Strengths and Weaknesses?

Are the capabilities valuable?	Are the capabilities rare?	Are the capabilities costly to imitate?	Are the capabilities organised for usage?	Are the capabilities strengths or weaknesses?
No	–	–	No	Weakness
Yes	No	–	Yes	Strength
Yes	Yes	No	Yes	Strength and distinctive competence
Yes	Yes	Yes	Yes	Strength and sustainable distinctive competence

Source: Adapted from J.B. Barney, *Gaining and Sustaining Competitive Advantage*, (Reading, MA: Addison–Wesley Publishing Company, 1997): 163 (Tables 5.2 and 5.3)

To summarise the use of VRIO framework for internal analysis, we note that sustainable strategic advantage results through the use of capabilities that are valuable, rare, inimitable, and for which the firm is organised for usage. Exhibit 5.10 indicates that the consequences of combining the four criteria of the VRIO framework can help to determine the strategic significance of an organisation's capabilities. Capabilities that are not valuable, rare, or that can be imitated should not be emphasised by the organisation. In fact, if the organisation puts in place systems and process and attempts to organise the usage of such capabilities it may lead to strategic disadvantage. Capabilities that yield strengths need to be organised for usage by the organisation.

2. Value Chain Analysis This is a method for assessing strengths and weaknesses of an organisation based on an understanding of the series of activities it performs. Porter (1985) is credited with the introduction of the framework called value chain.[12] A *value chain* is a set of interlinked value-creating activities performed by an organisation. These activities may begin with the procurement of basic raw materials and go through processing in various stages right up to the end products marketed to the ultimate consumer. The value chain of a company may be linked to the value chain of its upstream supplier and downstream buyers forming a series of chains that Porter terms as the *value system*.

Porter divided the value chain of a manufacturing organisation into primary and support activities. Primary activities are directly related to the flow of product to the customer and include five sub-activities. These are as follows:

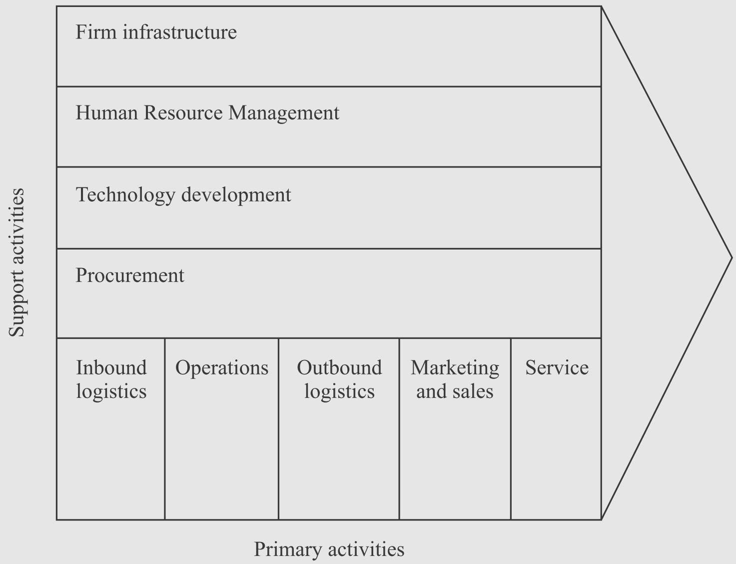
- *Inbound logistics*: All activities that an organisation uses for receiving, storing, and transporting inputs going into the production process. Typical inbound logistics activities performed in organisations are materials handling, warehousing, and inventory control.
- *Operations*: All activities required for transformation of raw materials to finished products. Typical operations activities performed in organisations are assembling, fabricating, machining, maintaining, and packaging.
- *Outbound logistics*: All activities that an organisation uses for receiving, storing, and transporting outputs going out of the production process. Typical outbound logistics activities performed in organisation are of materials handling, order processing, physical distribution, and warehousing.
- *Marketing and sales*: All activities that an organisation uses to market and sell products to customers. Typical marketing and sales activities performed by organisations are of pricing, developing products, advertising, promoting, and distributing.
- *Service*: All activities that an organisation uses for enhancing and maintaining a product's value. Typical service activities performed by organisations are of installation, repair, maintenance, and customer training.

Support activities are provided to sustain the primary activities. These consist of:

- *Firm infrastructure*: All activities that an organisation uses for ascertaining external opportunities and threats, identifying strengths and weaknesses, and generally managing the organisation for achieving its objectives. Typical firm infrastructure activities performed by organisations are of accounting, finance, planning, general management, legal support, and managing government relations.
- *Human resource management*: All activities that an organisation uses for managing human resources. Typical human resource management activities performed by organisations are of recruitment, selection, and training, developing, appraising, and compensating employees.
- *Technology development*: All activities that an organisation uses for creating, developing, and improving products and services. Typical technology development activities performed by organisations are R&D, product design, process design, equipment design, and servicing procedures.

- *Procurement*: All activities that an organisation uses for procuring inputs needed to produce products or provide services. Typical procurement activities performed by organisations are purchasing fixed assets such as machinery and equipment, raw materials, and supplies.

Exhibit 5.11 Porter's Generic Value Chain



Source. M.E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York, NY: Free Press, 1985): 37.

Exhibit 5.11 provides a simplified depiction of the value chain. As you can observe, it is a representation of the interrelated chain of activities that are required to be undertaken for bringing the finished product to the doorstep of the customer. The profit margin that an organisation earns depends on how effectively the value chain is managed. The value chain provides a systematic view of examining all the activities performed by an organisation and how these activities interact and are interrelated.

An illustration of the value chain can be seen in the case of oil companies in India. Here the value chain is broken down into two parts of upstream and downstream activities. The upstream activities refer to oil exploration, drilling, and transporting the crude oil to the refinery. The downstream activities start from refining and then transporting and marketing of oil and allied products through distributors and the petrol pumps. Most integrated oil companies perform all the upstream and downstream activities but they often vary in terms of the capability they possess in one or more activities in the value chain. Major global oil companies are highly integrated covering the complete value chain but Oil and Natural Gas Corporation Ltd. (ONGC) is India's sole oil exploration and production company. Indian Oil Corporation Ltd. (IOC) is in refining, transportation, and marketing and Bharat Petroleum Corporation Ltd. (BPCL) is strong in transportation and marketing with a marginal presence in refining. Essar Oil and Reliance are in refining while Indo Burma Petroleum Company Ltd. (IBP) is in marketing only. Obviously each of these companies has a set of strengths and weaknesses contributing to their organisational capability. Each has a defined strategic advantage and a specific competitive advantage in the oil industry with respect to each other.

The value chain analysis requires:

- Recognizing the activities that make up the organisation's value chain and classifying them into primary and support activities.
- Identifying the things done in those activities that contribute to providing value for the customer.

- Identifying how the value contribution can be increased so that it costs less to provide the same or more value thereby increasing the profit margin for the organisation.
- Identifying how the value configuration could be improved by innovatively reconfiguring or recombining activities.

The value chain analysis is a useful method for organisational appraisal as it helps in providing clarity about the areas where the strengths and weaknesses of the organisation reside. In general, the activities that can be provided in a manner that they create more value to the customer at less cost are strengths. Those activities that provide less value at more cost are weaknesses. In such a case, it would be better for the organisation to outsource those activities to external parties who could perform them better. Those areas where the organisation is strong should be retained as they are the competencies.

The technique of value chain analysis has some limitations:

- The technique is deceptively simple in concept but difficult to implement.
- It applies to industrial organisations and need to be adapted for application to service organisations.
- The concept of value is hazy. It is difficult to say what constitutes value for the customer. Value remains a theoretical construct before the customer actually is willing to pay what the organisation determined the value to be.
- The determination of cost cannot rely on traditional cost accounting methods. Activity-based costing is required to assess the correct estimates of costs.
- The analysis requires collecting data from varied sources. The periodicity of the sources of information need to be common. Where figures of costs, for instance, are not available for the same period it becomes difficult to make the analysis.
- The application of information technology upsets the calculations in value chain analysis as often it results in increasing value and reducing costs simultaneously.

3. Quantitative Analysis Relying on numbers is a popular technique for assessing the performance of an organisation. Among the numbers are the financial figures which are most often used for performance evaluation as well as assessment of strengths and weaknesses. But financial figures alone are not the sole basis. There are other numbers too which can be relied upon. We see here financial analysis and then the non-financial quantitative analyses.

i. *Financial Analysis:* The traditional methods used for evaluating financial performance cover various types of activities in different functional areas within an organisation.

   A technique such as financial *ratio analysis* assesses the liquidity, profitability, leverage, and activity aspects of any organisation. It can be used for analysing strengths and weaknesses and provides valuable data that can be used in organisational appraisal. It has an added advantage in that the existing accounting systems and procedures can be used for generating information for organisational appraisal. Ratio analysis is used on the basis of the reasonable assumption that ratios cover nearly all the important aspects of an organisation's activities and provides a selective approach to measuring effectiveness and efficiency. The details regarding the techniques of ratio analysis are covered well in books in the finance area so they will not be provided here. It should, however, be pointed out that though ratios have been in use for a long time and managers are aware of the technique as well as its applications, its use in strategic management is limited.

   Only if financial ratio analysis is used with due care can it realistically serve the purpose of organisational appraisal. The precautions which need to be taken include realisation of the limitations of ratio analysis, taking sufficiently long-term data to extrapolate trends, applying subjective analysis to numerical results by strategists, considering the data within an industry and across industries, and supplementing the financial analysis with appraisal in other areas such as marketing, technology, etc.

Apart from the traditional and popular techniques such as the ratio analysis certain other newer and improved techniques have also been devised to offset the limitations inherent in the older ones. We refer to two such techniques here. First, there is the *economic value-added (EVA) analysis.* Used to determine the wealth of a company, EVA is a popular technique devised by Stern Stewart & Company. Economic value-added is defined as the system of corporate management that defines profitability in terms of the returns on capital above the cost of servicing the capital employed. It is the wealth an organisation creates for its owners and is expressed as the difference of after-tax operating profits and the total cost of capital. In other words, EVA is the representation of the simple idea that an organisation needs to earn more from a business than the cost of capital invested in it. The calculation of EVA offers a yardstick to an organisation to assess whether it has the required capability to take a strategic action and whether the potential returns from such an action are likely to be greater than the cost of capital required to take it.

The second technique that we talk about here is that of *activity-based cost (ABC) accounting* that attempts to do away with some of the limitations of the traditional cost accounting. Activity-based cost identifies the major activities in the value chain within a firm and keeps a tab on the costs within each activity. This helps in identifying the factors that determine cost (known as cost drivers) and the areas where costs are actually incurred. From the perspective of analysing strengths and weaknesses, ABC, as well as EVA, helps in locating the areas where these lie within an organisation.

In sum, financial analysis offers a convenient and reliable basis for organisational appraisal, provided it is used with appropriate modifications and with a complete understanding of the limitations of financial statements in any long-term assessment of organisational performance.

ii. *Non-financial quantitative analysis*: The obvious advantage of financial analysis is that all numbers can be expressed in terms of a common monetary unit such as rupees, pounds, or dollars. But not everything that goes on in an organisation can be best expressed in monetary units. It might not even be desirable to do so. For instance, many of the operational parameters are best expressed in physical terms. Quantification of intangibles such as goodwill or employee morale may be possible but it is not desirable to do so in monetary terms. Here the non-financial quantitative analysis can help an organisation in appraisal. Examples of non-financial quantitative measures are: employee turnover, absenteeism, market ranking, rate of advertising recall, total cycle time of production, inventory units used per period, service call rate, number of patents registered per period, etc.

4. Qualitative Analysis

An organisational appraisal can be based primarily on quantitative analysis since it is possible to measure and compare on a numerical or financial basis. Yet, as most strategists are aware, quantification has its limitations. The quantitative analysis has to be tempered with qualitative analysis. Such an analysis is based on informed opinion, judgement, intuition, or hunch.

Many of the strengths and weaknesses of an organisation cannot be expressed in quantitative terms. For example, qualitative analysis can best be used to express the tenor of corporate culture, ability to absorb and assimilate knowledge, or the level of morale among employees. A systematic qualitative analysis may use the survey approach to finding, for instance, the status of organisational climate. These factors do matter so far as the strengths and weaknesses of an organisation are concerned.

Qualitative analysis can also effectively supplement quantitative analysis. Conversely, quantitative analysis could be used to support and reinforce qualitative assessment. Most often, qualitative analysis is considered as 'soft' as compared to the 'hard' analysis based on numbers. But this does not mean that qualitative analysis is not meant to be rigorous or is based on emotions or fancy. Rather such an analysis is hard-headed too as several other mental faculties are also involved apart from plain and simple number-crunching that goes into quantitative analysis.

Comparative Analysis

Recall how we defined strengths and weaknesses of an organisation and its distinctive competencies earlier in this chapter. These were defined with respect to the competitors of an organisation. We said that strengths and weaknesses as well as distinctive competencies are not absolute but relative. The relativity is based on the uniqueness and exclusivity of the strengths, weaknesses, and the distinctive competencies of an organisation in comparison to its competitors. Comparative analysis thus forms the cornerstone of the assessment of the strengths and weaknesses of an organisation. It can be done in three ways: through historical analysis, on the basis of industry norms, and by benchmarking, each of which are described as under.

1. Historical Analysis One way to compare performance and identify strengths and weaknesses is to start with the historical analysis of one's own organisation over a period of time. Historical analysis is a good measure of how well or badly an organisation has progressed with respect to its own past performance. Frequently, we see that the performance of companies is shown in terms of comparative figures over the last year or for the same period in the past year. Such a practice is standard in presentation of balance sheet and profit and loss account in the annual report of companies. This is an evidence of how the organisation has performed on the basis of common parameters. Durable strengths or nagging weaknesses will certainly contribute to a good or bad performance respectively. Conversely, areas which show consistent good performance are an indicator of strengths in those areas and the reverse, i.e. areas that show recurrent bad performance may be an indicator of weaknesses. Continuous improvement, which is an important objective, can be measured adequately through historical analysis.

Historical analysis has some limitations that should be kept in view. First, focus should not only be on areas of bad performance as it just shows where an organisation is lacking. The analysis should delve deeper to uncover the reasons for bad performance so that corrective measures could be taken. This way the weaknesses could be removed. Second, measurement of past performance on a small base could show dramatic improvements that could turn out to be illusory. Lastly, historical analysis is only meant to show up improvements with regard to one's own performance while organisations should be more concerned with its performance in comparison to its competitors. Here enters the relevance of other comparison standard such as industry norms and benchmarking that are described as follows:

2. Industry Norms The industry to which a business belongs is the most obvious choice for comparison with regard to a wide range of parameters. A company might check whether its cost structure is comparable to that of its competitors or the budget spending on advertising is equal to that of its nearest rival. In doing so, it is assumed that businesses in an industry operate under a similar relevant environment and a comparison could throw up significant information on the basis of which to assess where one stands with respect to others.

Rather than comparing oneself with all the firms in an industry it would be more instructive to consider the firms that follow similar strategies. The concept of strategic group is helpful here. 'Strategic groups are conceptually defined clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry.'[13] Though used for analysing competition in an industry, the concept of strategic group is helpful in recognising the firms that fall into similar category and could be referred to for comparative analysis.

Even with all their attendant benefits, industry norms have some limitations that have to be kept in view. First, comparisons based on industry norms aim at averages and so could lead to erroneous conclusions regarding one's capability. What is important is to learn how to exceed the industry norms rather than simply conform to them. Second, industry norms are aggregated figures of several different types of firms in an industry. A firm should be more interested in comparing itself with only those firms that are of a similar nature. A classification based on strategic groups will be helpful here. Thirdly, industry norms are difficult to obtain as firms closely guard information which could be of use to their competitors. Yet, information sources that provide data regarding several parameters such as annual reports are available in public domain. These could be used for determining the industry norms.

All in all, industry norms provide a good idea to firms regarding the areas in which they excel or need improvements. This can help them in locating their areas of strengths and weaknesses.

3. Benchmarking A benchmark is a reference point for taking measures against. The process of benchmarking is aimed at finding the best practices within and outside the industry to which an organisation belongs. The purpose of benchmarking is to find the best performers in an area so that one could match one's own performance with them and even surpass them. The American Productivity and Quality Centre gives an interesting interpretation of the term benchmarking by saying that it is 'the practice of being humble enough to admit that someone else is better at something, and being wise enough to learn how to match and even surpass them at it'.[14]

When one is interested in finding out what is to be compared then there are three types of benchmarking: the performance, process, and strategic benchmarking. *Performance benchmarking* is to compare one's own performance with that of some other organisation for the purpose of determining how good one's own organisation is. *Process benchmarking* is to compare the methods and practices for performing processes while *strategic benchmarking* is to compare the long-term, significant decisions and actions undertaken by other organisation to achieve their objectives.

When one is interested in finding against whom to compare oneself then there could a different classification of four types of benchmarking. *Internal benchmarking* is comparison between units or departments of the same organisation. *Competitive benchmarking* is direct comparison of own performance against the best competitors. *Functional benchmarking* is comparison of processes or functions against those of non-competitive organisations within the same sector or technological area. *Generic benchmarking* is comparison of own processes against the best practices anywhere in any type of organisation.

A firm could attempt benchmarking at several levels using the different types of benchmarking. The main purpose should be to find out the best practices so that one could conform to it. But before one does, benchmarking is enough to show where a firm excels or lags behind. This is helpful in assessing the strengths and weaknesses of an organisation and determining its capability.

Despite its popularity in industry and elsewhere, benchmarking has some limitations. First, it is a tough process to use, is time-consuming and expensive, and requires high level commitment. Second, it serves little purpose if it is used sporadically. It needs to be done on a continuous basis for effective results. Thirdly, financial statements of publicly-held companies are easily and openly available and therefore organisations may be tempted to do much of benchmarking on the basis of these. However, it must be remembered that financial statements provide lagging indicators and may not be really useful as the basis for benchmarking. Lastly, it may be difficult to find comparable benchmarking candidates in all types of areas and activities and organisations may have to rely on second-best available choice. Overall, benchmarking may actually be comparing your tomorrow with someone else's yesterday and in this sense may tend to rely on hindsight than foresight. Strategic management is more to do with foresight while learning from hindsight.

Comprehensive Analysis

While it would be useful to use a range of analytical methods to evaluate the strengths and weaknesses of a firm and to determine its capability, a better way is to use a combination of techniques as each one of these have a different purpose and limitations. Comprehensive analysis helps to deal with these limitations. Three popular methods and techniques of key factor rating, business intelligence systems, and balanced scorecard for performing a comprehensive analysis are described as under:

1. Key Factors Rating A comprehensive method, which can be used in association with financial analysis, is that of key factor rating.

Many systems have been evolved by consultants (for a detailed discussion, see reference[15]) to assess organisational strengths and weaknesses. Essentially, these systems are based on rating depending on a number of key factors, each of which is analysed on the basis of a series of thoughtful and penetrating questions. A detailed study of the areas covered by these questions leads to a reliable appraisal of an organisation.

If we consider the different factors that have been mentioned in Section 5.2 under various headings of functional capabilities, we can suggest the following illustrative questions that can be asked with regard to the different functional areas. The sequence of questions roughly corresponds to factors included under different sub-sections dealing with functional capability in Section 5.2. You can use these questions while attempting case analyses to uncover capability in various functional areas. You could also employ this useful list of questions for your research and writing your project reports in strategic management.

For financial capability factors

1. *Questions related to sources of funds:* Is the organisation's capital structure satisfactory? Can the organisation raise capital in the market? Where does the effective controllership rest? Is the debt-equity ratio satisfactory as compared to other competitive organisations? Does the financing pattern cause the organisation to be dependent on outsiders? Is the reserves and surplus position healthy? Is relationship with banks and financial institutions cordial?
2. *Question related to usage of funds:* Are adequate investment opportunities available? How does the organisation compare with others so far as dividend record is concerned? What type of relationship exists with shareholders?
3. *Questions related to management of funds:* How effective and efficient are the financial, accounting, and budgetary systems? Does the management control system satisfy the organisational needs? What trends do the various financial ratios indicate? Have they been satisfactory over the last few years? What strengths and weaknesses does the ratio analysis indicate? Has inflation been taken into account? What is the status of the ongoing projects? Have there been time-and cost-overruns? How far has the tax advantages accrued to the organisation?

For marketing capability factors

1. *Questions related to products or services:* Does the organisation offer the requisite variety of products or services? What is the level of product differentiation? Does the product-mix satisfy market requirements? Are there products which do not contribute to profitability? What steps have been taken to phase out such products? How do the products compare with others in the industry in terms of quality, packaging, etc?
2. *Questions related to price:* What pricing objectives are pursued? Are they oriented towards: profit maximisation, sales revenue maximisation? Do the pricing policies conform to market requirements? Does the organisation avail of price protection and advantages available to it?
3. *Questions related to promotion:* Does the organisation use relevant promotional tools? Are the different forms of promotion used effectively in generating sales? What does market research indicate with regard to promotion and public relations? Are the funds allocated to promotion used effectively?
4. *Questions related to integrative and systemic factors:* How does the organisation compare with others of its kind in terms of market standing and image? What strengths and weaknesses are there in the marketing organisation? How effective is the marketing management information system?

For operations capability factors

1. *Questions related to the production system:* Does the plant location offer any unique advantages or disadvantages? Is the layout appropriate? Is the plant capacity of the requisite level? Do work systems support efficiency and productivity? What is the extent of vertical integration? Does it offer certain unique advantages to the organisation?
2. *Questions related to operations and control:* Is aggregate planning able to absorb short-term demand fluctuations? Is there an adequate supply of the factors of production? Does the organisation have any unique advantages with respect to its factors of production? Is the material supply system reliable? Does the organisation have access to sources of material supply not available to its competitors? What is the efficiency and effectiveness of the inventory control system? How effective are the cost, quality, and maintenance systems?
3. *Questions related to the R & D system:* Does the organisation possess certain distinct advantages with respect to its R & D personnel, facilities, and technology? Does it possess patent rights? Does it have access to the latest technology? How far do technology collaborations benefit the organisation?

For personnel capability factors

1. *Questions related to the personnel system:* How effective are the various personnel systems like manpower planning, selection, development, etc.? What importance does the personnel function enjoy within the organisation?
2. *Questions related to organisational and employee characteristics:* How does the organisation compare with others of its kind in terms of corporate image? Does the organisation possess unique advantages with regard to the quality of its managers, staff, and workers? How is the organisational perceived as an employer? What special benefits does the organisation offer to its employees that others do not offer?
3. *Questions related to industrial relations:* What is the organisation's record with regard to industrial relations? Is the union-management relationship amicable? Have the outstanding issues been resolved? How effectively does the system of collective bargaining work? Does the organisation offer safety, welfare, and security measures over and above the statutory requirements? What is the general level of employee satisfaction and morale? Does it benefit the organisation in terms of competitive advantages through increased productivity and low cost?

For information management capability factors

1. *Questions related to acquisition and retention of information:* Where does the organisation stand with respect to the sources, quantity, quality, and timeliness of information for decision making? What is the level of its retention capacity for information? How secure are its information systems?
2. *Questions related to processing and synthesis of information:* How well does the database management work in the organisation? What is state-of-the art with respect to computer systems and software capability of the organisation? What is the level of its ability to synthesise information?
3. *Questions related to retrieval and usage of information:* Is the availability and appropriateness of information format adequate? What is capacity of the organisation to assimilate and use information?
4. *Questions related to transmission and dissemination:* What are the speed, scope, width, and depth of coverage of information in the organisation? What is the level of willingness on the part of managers to accept information?
5. *Questions related to integrative, systemic, and supportive factors:* What is the situation regarding the availability of IT infrastructure within the organisation? Is it relevant and compatible with the organisational needs? Does the organisation carry out regular and periodical upgradation of IT facilities? Is there willingness on the part of top management to invest in the latest IT systems? Are competent IT professionals available within the organisation? Does the top management support IT application within organisation?

For general management capability factors

1. *Questions related to general management system:* Does the organisation use strategic management systems and what is the level of their effectiveness? Have the mission, purpose, and objectives been identified clearly? What is the effectiveness level of the strategy formulation, implementation, and evaluation processes? Is the management information system reliable? Does the organisation possess distinctive advantages with respect to its corporate planning system? Are the rewards and incentives systems for top managers consistent with the achievement of objectives?
2. *Questions related to general managers:* Does the top management possess the required orientation to implement strategies? As compared to similar organisations, what are the qualities and capabilities of general managers? Do these qualities and capabilities offer any unique advantages to the organisation?
3. *Questions related to external relationships:* What is the level of influence that the organisation has on governmental regulatory institutions and financial institutions? Is the organisation able to manage its public relations well? Does the organisation discharge its social responsibilities well? How does the organisation compare with regard to its public image with respect to its competitors?
4. *Questions related to organisational climate:* Does the organisational culture support the achievement of objectives? Is the use of power, political equations, and the balance of vested interests conductive to the achievement of objectives? Do these factors offer any unique advantages? How effectively does the organisation imbibe strategic changes? Is the nature of organisational structure and controls consistent with strategy implementation?

Key factors rating is quite a comprehensive method as you can observe from the range of issues covered. Yet, it has some limitations. First, its comprehensiveness may make it an unwieldy method to use. It will require a variety of information from different parts of an organisation making it a slow and inefficient method. Second, this method is basically a subjective method as managers have to assign rating based on their judgement. Subjectivity has its limits and would require improvement based on reference to objective factors as one set of factors after the other are considered. Lastly, key factor rating method could better be dovetailed with the audit processes that are ongoing in organisations otherwise there is a possibility of evaluation efforts being duplicated.

Having answered the questions for each of the functional areas detailed earlier, the strategists are in a position to pinpoint the strengths and weaknesses in each of the functional areas. Based on this, the organisational capability can be judged.

2. Business Intelligence Systems Information technology has made a huge impact on the way organisations use their information systems for organisational appraisal. Methods like key factors rating and balanced scorecard are implemented by the means of sophisticated IT tools to make them feasible for the purpose of decision-making. Business intelligence is one of the concepts used for discovering knowledge from various internal and external data repositories available to an organisation to support effective decision-making.

Business intelligence (BI), a term coined by Howard J. Dresner of the Gartner Group in 1989, became popular in the late 1990s. Business intelligence is defined by the Gartner Group as ‘a broad category of applications and technologies for gathering, storing, analyzing, and providing access to data to help enterprise users make better business decisions.’[16] The applications of BI include the activities of decision support systems, query and reporting, online analytical processing (OLAP), statistical analysis, forecasting, and data mining.

Business intelligence can help an organisation in strategic and operational decision-making. A Gartner survey ranked the strategic use of BI in the following order:[17]

1. Corporate performance management.
2. Optimising customer relations, monitoring business activity, and traditional decision support.
3. Packaged stand-alone BI applications for specific operations or strategies.
4. Management reporting of BI.

Among these, the issue of corporate performance management is of interest to us here. This application can be used to uncover the strengths and weaknesses of the organisation and can help in determining the organisational capability. Among several techniques in corporate performance management is the immensely popular one of the balanced scorecard.

3. Balanced Scorecard Balanced scorecard method, a popular performance management system, is discussed in Section 2.6 where we described how it can be relevant for objective setting in organisations. Here we need to focus again on the balanced scorecard as a means of assessment of strengths and weaknesses of an organisation. Proposed by Robert S. Kaplan and David P. Norton, balanced scorecard attempts to do away with the bias in performance measures towards financial indices and tries to build a holistic system of measurement. Balanced scorecard is considered as 'a set of measures that gives top managers a fast but comprehensive view of the business.... (It) includes financial measures that tell the results of actions already taken. And it complements the financial measures on customer satisfaction, internal processes, and the organization's innovation and improvement activities - operational measures that are the drivers of future financial performance.'[18]

The balanced scorecard identifies four key performance measures as follows:

Financial perspective: 'How do we look at shareholders?'

Customer perspective: 'How do customers see us?'

Internal business perspective: 'What must we excel at?'

Learning and growth perspective: 'Can we continue to improve and create value?'

Each of these perspectives could be used individually but using them in combination provides deeper insights and a balanced approach to strategy formulation. One perspective is not allowed to outweigh others when the strengths and weaknesses of an organisation are assessed. The balanced scorecard could be used as a strategic management system[19] but for our limited purpose here, it could as well be used as a means to identify the strengths and weaknesses in an organisation. Keeping score of the strengths and weaknesses in critical areas of performance enables a quantitative as well as qualitative analysis of the organisation.

A comprehensive picture of organisational capability can be prepared through structuring the process of organisational appraisal.

5.5 STRUCTURING ORGANISATIONAL APPRAISAL — LO 5

Just as environmental appraisal is structured through an environmental threat and opportunity profile (for details, see Chapter 4), organisational appraisal can also be structured through various techniques. For instance, Glueck proposes preparation of the strategic advantage profile (SAP) where the results of organisational appraisal are presented in a summarised form.[20] Another approach, suggested by Rowe et al, is to prepare a company capability profile as a means for assessing a company's strengths and weakness in dealing with the opportunities an threats in the external environment.[21] We propose a similar approach here of making an organisational capability profile which can be summarised in the form of a strategic advantage profile. The SAP is then matched with the environmental threats and opportunity profile, prepared while structuring the environmental appraisal, in order to look for strategic alternatives and exercise a strategic choice.

Preparing the Organisational Capability Profile

The organisational capability profile (OCP) is drawn in the form of a chart as depicted in Exhibit 5.12, which shows a summarised OCP. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub-factors along a scale ranging from values of – 5 to + 5. A detailed OCP may run into several pages where each of the sub-factors constituting the different functional capability factors can be assessed. In this manner, a summarised OCP, as shown in Exhibit 5.12, may be prepared.

Exhibit 5.12 Summarised form of Organisational Capability Profile

Capability factors	Weakness	Normal	Strength
1. Financial capability factors	–5	0	+5
(a) Sources of funds			
(b) Usage of funds			
(c) Management of funds			
2. Marketing capability factors			
(a) Product-related			
(b) Price-related			
(c) Promotion-related			
(d) Integrative and systematic			
3. Operations capability factors			
(a) Production system			
(b) Operations and control system			
(c) R & D system			
4. Personnel capability factors			
(a) Personnel system			
(b) Organisational and employee characteristics			
(c) Industrial relations			
5. Information management capability factors			
(a) Acquisition and retention of information			
(b) Retrieval and usage of information			
(c) Processing and usage of information			
(d) Transmission and dissemination of information			
(e) Integrative, systemic, and supportive			
6. General management capability factors			
(a) General management system			
(b) External relations			
(c) Organisational climate			

After completion of the chart, the strategists are in a position to assess the relative strengths and weaknesses of an organisation in each of the six functional areas and identify the gaps that need to be corrected or opportunities that could be used. The preparation of OCP provides a convenient method to determine the relative priorities of an organisation, vis à vis, that of its competitors, its vulnerability to outside influences, the factors that support or pose a threats to its existence, and its overall capability to compete in a given industry.

Preparing the Strategic Advantages Profile

Based on the detailed information presented in the OCP, it is possible to prepare a concise chart of strategic advantage profile. An SAP can also be prepared directly when students analyse cases during classroom learning without making a detailed OCP. An SAP provides 'a picture of the more critical areas which can have a relationship of the strategic posture of the firm in the future'.

In Exhibit 5.13, we provide an illustration of an SAP drawn for a hypothetical company in the bicycle industry. The main business of the company is in the sports cycle manufacturing for domestic and exports markets. This example relates to a hypothetical company but the illustration is realistic (recall that we used the same example to prepare an ETOP in Chapter 4; for details refer to Exhibit 4.12).

Exhibit 5.13 Strategic Advantage Profile (SAP) for a Bicycle Company

Capability factor	*Nature of impact*	*Competitive strengths or weaknesses*
1. Finance	↓	High cost of capital; reserves and surplus position unsatisfactory
2. Marketing	→	Fierce competition in industry; company's position secure at present
3. Operations	↑	Plant and machinery in excellent condition captive sources for parts and components available
4. Personnel	→	Quality of managers and workers comparable with that in competitor companies
5. Information	↑	Advanced management information system in place; most traditional functions such as payroll and accounting computerised; company website has limited scope for e-commerce
6. General management	↑	High quality and experienced top management generally adopts a proactive stance with regard to decision-making

Note: Up arrow indicates strength, down arrow indicates weakness while horizontal arrow indicates a neutral position

The SAP presented in Exhibit 5.13 clearly shows the strengths and weaknesses in different functional areas. For instance, the company has to use its strengths in the areas of operations and general management areas. A gap is also indicated in the finance area which has to be overcome if the company has to survive and prosper in a competitive industry like bicycle. In marketing, though the competitive position is secure at present, it cannot be said that it will remain so in the future. The SAP indicates that strategists initiate action to cover the gaps and use the company's strengths in the light of environmental threats and opportunities.

The probable line of action to be adopted for covering the gaps and using the company's strengths in the light of environmental threats and opportunities is found through considering strategic alternatives at the corporate-level (Chapter 6) and the business-level (Chapter 7) and exercising a strategic choice (Chapter 9).

Summary by Learning Objectives

This chapter is devoted to the understanding of the internal environment of the organisation. Along with the external environment, discussed in Chapter 4, this understanding provides us a comprehensive view of the SWOT factors.

The main points covered in this chapter are as follows:

LO 1 *Explain the manner in which strategic and competitive advantage is developed*

- The dynamics of the internal environment is understood in terms of the complex interplay of organisational resources and behaviour, strengths and weaknesses, synergistic effects, and the competencies of the organisation.
- The resources possessed by an organisation are the physical, human, and organisational resources. Organisational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organisation that create the ability of, or place constraints in, the usage of resources. Strength is the inherent capability which an organisation can use to gain strategic advantage while a weakness is an inherent limitation or constraint which creates a strategic disadvantage for an organisation. Strengths and weakness combine to produce synergistic effects creating competencies that are special qualities that make organisations withstand pressures of competition in the marketplace.
- Organisational capability is the inherent capacity or potential of an organisation to use its strengths and overcome its weaknesses in order to exploit opportunities and face threats in its external environment. These are the outcomes of the knowledge possessed by an organisation which is considered as a learning system.
- The ultimate goal of an organisation is to secure strategic advantage. Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom the rewards or penalties of performance could be measured. The purpose of gaining strategic advantage is to empower organisations to realise their strategic intent.

LO 2 *Describe and give examples of the organisational capability factors*

- Organisational capability is described in terms of the six areas of finance, marketing, operations, personnel, information management, and general management. For each capability factor, we have first defined that factor and then pointed out some of the important elements that support capability in an area.
- Financial capability factors relate to the availability, usage, and management of funds. Marketing capability factors relate to the pricing, promotion, and distribution of products or services. Operations capability factors relate to the production of products or services and use of material resources. Personnel capability factors related to the existence and use of human resources and skills. Information management capability factors relate to the design and management of the flow of information from outside into, and within, an organisation for the purpose of decision making. General management capability relates to the integration, coordination, and direction of the functional capabilities towards common goals.
- The purpose of organisational appraisal is to determine the organisational capability in terms of strengths and weaknesses that lie in the different functional areas.

LO 3 *Discuss the process of conducting organisational appraisal*

- The various considerations involved in organisational appraisal relate to the factors that affect appraisal, the approaches that can be adopted to appraise them, and the sources of information available to perform the appraisal.
- The factors that affect organisational relate to the strategists, the organisation, and to the internal environment.
- The approaches adopted for preparing organisational appraisal may range from highly systematic to an *ad hoc* approach.
- The sources of information for organisational appraisal could be internal and external, and verbal and written.

LO 4 *Review the major methods and techniques used for organisational appraisal*

- The methods and techniques for organisational appraisal are similar to those used for performance evaluation. This chapter has described those under three groups of internal, comparative, and comprehensive analyses.
- Internal analysis consists of value chain analysis, quantitative analysis including financial and non-financial analysis, and qualitative analysis.

- Comparative analysis consists of the techniques of historical analysis, industry norms, and benchmarking.
- Comprehensive analysis is done through the methods of key factor rating, business intelligence systems, and balanced scorecard.

LO 5 *Prepare Strategic Advantages Profile (SAP) for an organisation*

- The structuring of organisational appraisal could be done by a detailed organisational capability profile and a summarised strategic advantages profile.

With this and the previous chapter we have a good idea of what strengths, weaknesses, opportunities and threats an organisation possesses. We will further look into the strategic alternatives at the corporate and business levels that could suit the configuration of these strengths, weaknesses, opportunities and threats. We first take up the discussion of corporate-level strategies in Chapter 6.

EXERCISES

Short-answer Questions

1. What is meant by organisational appraisal? **(LO 3)**
2. What impact do organisational resources and behaviour have on the internal environment of an organisation? **(LO 1)**
3. With the help of a few examples, illustrate how strengths or weaknesses create synergistic effects. **(LO 1)**
4. What is a distinctive competence and how is it important to strategy formulation? **(LO 1)**
5. Why are strategists interested in determining organisational capability? **(LO 1)**
6. Trace the path taken from organisational resources and organisational behaviour to the development of strategic advantage. **(LO 1)**
7. Mention the important factors that influence the capability of an organisation in each of the following functional areas: (a) finance (b) marketing (c) operations (d) personnel (e) information management (f) general management. **(LO 2)**
8. What are the factors that affect organisational appraisal? **(LO 3)**
9. What different approaches can be adopted by strategists to appraise their organisations? **(LO 3)**
10. What sources of information can be used for appraising an organisation? **(LO 3)**
11. Explain briefly the four components of the VRIO framework. **(LO 4)**
12. What is value-chain analysis? **(LO 4)**
13. What pitfalls have to be avoided while using financial analysis for organisational appraisal? **(LO 4)**
14. How can industry norms and benchmarking be used for organisational appraisal? **(LO 4)**
15. How does the key factors rating method work for organisational appraisal? **(LO 4)**
16. Explain the manner in which the technique of balanced scorecard can be used to perform organisational appraisal. **(LO 4)**
17. How can the technique of business intelligence be used to perform organisational appraisal? **(LO 4)**
18. How is an organisational capability profile prepared? **(LO 5)**
19. How is a strategic advantages profile prepared? **(LO 5)**

Assurance of Learning Exercises

1. Explain the different aspects of the internal environment emphasising the nature of their impact on the capability of an organisation and ultimately its strategic advantage. **(LO 1, LO 2)**
2. Considering the different functional areas in any organisation of your choice, determine the important factors within each functional area which influence the capability of that organisation to implement its strategies. **(LO 1, LO 2)**
3. Describe the various considerations involved in appraising an organisation. **(LO 3)**
4. Write a detailed explanatory notes on the method and techniques used for organisational appraisal. **(LO 3)**
5. Select an industry and identify the major players. Collect data regarding parameters such as market share or profitability. Perform a comparative analysis of each of these firms. Attempt to rank the firms on the parameters you have chosen. Analyse the strategic advantage that each of the firm has in comparison to others in the industry. **(LO 2, LO 4, LO 5)**
6. Consider any organisation in an industry of your choice. Prepare an organisational capability profile and summarise the results in the form of a strategic advantage profile clearly indicating the nature of the impact of different capability factors. **(LO 2, LO 5)**

Review Case

AID FOR THE GRAYED: HELPAGE INDIA AT WORK*

The developments in medical sciences, lowering of mortality rates, increase in life expectancy, and improvements in economic well-being, education, nutrition and sanitation have ironically led to a situation where there are increasingly a larger number of aged people in society. Demographics show that one in nine persons in the world aged 60 years or above are projected to increase to one in five by 2050.

India too like other developing countries experiences rapid ageing of the population with an estimated 90 million aged people in 2011 expected to rise to 173 million by 2026. Almost eight out of ten of these aged people live in rural areas. Global Age Watch Index Report of HelpAge International ranked India a poor 73 out of the 91 countries sampled globally.

The challenges that the elderly people in society face are many. For instance, a United Nations Population Fund (UNFPA) report indicates the following for India:

- There are 90 million aged people in 2011 expected to rise to 173 million by 2026.
- 30 per cent of aged people live alone
- 90 per cent of aged people work for livelihood
- Number of elderly women is higher than elderly men; more women are 80+ years than men

Socioeconomic developments such as urbanisation, modernisation, and globalisation have impacted the economic structure, erosion of societal values, and the weakening of social institutions such as the joint family. The changing mores of society have created a chasm between generations. The intergenerational differences have created a situation where the younger people are involved in education, career building, and establishing themselves in life ending up ignoring the needs of the elderly among them. The older generation is caught between a society which cares little for them and the absence of social security leading them to a situation where they are left to fend for themselves.

Unlike many developed countries, India does not have an effective security net for the elderly people. The Ministry of Social Justice and Empowerment formulated the National Policy on Older Persons (NPOP), 1999, but the policy failed in implementation. There are sporadic attempt by governments at the central and state levels to pay old-age pensions but like most government schemes there is a lot of leakage of funds and inefficiency. There is also a lack for post-retirement avenues for re-employment. It is in this context that institutions such as HelpAge India play a positive role in society.

HelpAge India, established in 1978, is a secular, not-for-profit, non-governmental organization (NGO) registered under the Societies Registration Act of 1860. It envisions 'a society where elderly have right to an active, healthy, and dignified life'. Its mission is stated as: to work for the cause and care of the disadvantaged older persons and to improve their quality of life'. Its Strategic Plan, 2014–20, sets ambitious objectives such as livelihood and health security to two million elderly people. HelpAge India is one of the founder-members of HelpAge International a body representing the cause of the elderly at the United Nations.

The organization of HelpAge India consists of a head office at New Delhi with regional and area offices situated all over India. The governing body of the organisation consists of distinguished people from different walks of life. Besides the governing body, there are three committees: operations committee, business development committee, and audit committee. The chief executive officer (CEO) Mr. Mathew Cherian oversees the planning and implementation of policies and programmes with the support of directors. The regional directors are responsible for their own regions. The program division at the head office chooses the partner agencies to provide the services to the elderly people.

HelpAge India raises resources to perform three types of functions:

- Advocacy about policies for the elderly persons with the national and local governments.
- Creating awareness in society about the concerns of the aged and promote better understanding of ageing issues.
- Help the elderly persons become aware of their own rights so that they get their due and are able to play an active role in society.

The major programme areas of HelpAge India include health, social protection, disaster management, age care programmes, and social mobilisation. The programmes are implemented through several projects such as mobile medicare units, ophthalmic care for performing cataract surgeries, Adopt-a-Gran, support to old-age homes, day care centres, income generation, and disaster relief.

The business model of HelpAge India is based on revenue generation through grants and donations from international and national sources. Nearly half of the donations come from international donors. About one-fifth of the donors are individuals. The sources of contributions come from fundraising activities that include direct mail, school fundraising, corporate fundraising, sale of greeting cards, acting as corporate agent for insurance, organising events, and establishing a shop-for-a-cause that sells gifts made by disadvantaged people.

A review report on the activities of HelpAge India enumerates its strong points as under.

- Wide Reach and Impact
- Effective Partnerships in Development
- High Degree of Charitable Commitment
- Focus on Efficiency and Transparency
- Quality of Management

With a wide spread of activities and being a NGO having limited funding, HelpAge India has adopted modern means of IT and networking. Most of the HelpAge executives work in the field and have no direct access to the office network. They have to use E-mail in order to maintain contact with their regional or area offices. They use cyber-cafes or handheld devices for sending and receiving E-mails. HelpAge has installed a secure connection to access E-mail from anywhere with a high level of security and protection of data and contents.

The nature of the non-profit organizations (NPOs) demands certain requirements. Among these, transparency of operations and funds management is a major one. There are many NGOs that are accused or suspected of misappropriating funds for personal benefit. HelpAge India is conscious of this fact and gives high priority to information disclosure. The audited financial statements and the annual report are available on its website. The financial statements give a detailed account of the expenditure on individual projects. The expenses on travel and salaries of its employees and CEO are also mentioned. The individual donors are provided information regarding the use of the funds donated by them.

The functional approach at HelpAge India consists of developing projects based on the assessment of the needs of its target community rather than implementing them directly. The implementation takes place through the partner agencies. Rather than outright grants, it supports income generation projects for the elderly people. The success of implementation critically depends on the identification and appointment of partner agencies. The officers of HelpAge India physically inspect the proposed agencies and check on their management to ensure that they are not family-run set-ups established for personal gains. HelpAge India works with partner agencies. These partners may be, for instance, charitable eye hospitals for the ophthalmic care programme.

HelpAge India faces criticism, in general, as a part of the grouse against NGOs that some sections of society have. There has also been governmental action against reputed NGOs such as HelpAge India and Eklavya under the Foreign Contribution Regulation Act when income tax notices have been slapped on them. It is alleged that this was done to prevent them from collecting foreign funds. Other criticism against HelpAge India centre on hyping their achievements through publicity, outsourcing funding to organisations of doubtful integrity, and seeking funds by providing misleading information.

Organisations such as HelpAge step in where society and government fail to reach or reach only inadequately. HelpAge India with its slogan of 'fighting isolation, poverty, and neglect' moves on its mission of providing 'equal rights, dignity for elders'. It foresees its future activities in the area of rights-based advocacy for a better life for the elderly people by bringing them into the mainstream of society rather than being marginalised to the fringes.[23]

Questions

1. In your opinion, what is the distinctive competence of HelpAge India? **(LO 1)**
2. Identify a convenient scheme of identifying the categories of organisational capability factors for Helpage India and identify two or three major factors in each of the categories you created. **(LO 2)**
3. Prepare a strategic advantage profile for HelpAge India. **(LO 2, LO 5)**

Notes and References

1. SBI's website at *http://www.sbi.co.in/portal/web/about-us/about-us*; Annual Report 2013–14 available at: *http://www.sbi.co.in/portal/documents/41076/60023/1403247921331_SBI_ANNUAL_REPORT_ENGLISH_2013_14.pdf/8a2bc6bb-a7a4-405d-98ec-a3749731bf76*. Retrieved 29 November, 2014.
2. J.B. Barney, 'Firm Resources and Sustained Competitive Advantage,' in *Journal of Management,* 17, no. 1 (1991): 99–120.
3. J.B. Barney, 'Looking Inside for Competitive Advantage,' in *Academy of Management Executive,* IX, no. 4 (1995): 56.
4. J.B. Barney, 'Resource-based Theories of Competitive Advantage: A Ten-year Retrospective on the Resource-based View,' in *Journal of Management*, 27, no. 6 (2001): 643–50.
5. A. Sharplin, *Strategic Management* (New York: McGraw-Hill, 1985): 93–94.
6. A.A. Thompson, Jr. and A. J. Strickland III, *Strategic Management: Concepts and Cases*, 3rd ed. (Texas: Business Publication, 1984): 67.
7. M.A. Hitt, R.D. Ireland, and R.E. Hoskisson, *Strategic Management: Competitiveness and Globalization*, (New York: West Publishing 1960): 103–04.
8. P. Ghemawat, *Commitment: The Dynamic of Strategy* (New York: Free Press, 1991).
9. 'The New Conglomerates,' *Business Today*, 25 September, 2005, 17 and 'Dispersed Competence,' *Business Line,* 9 August, 2006.
10. K.M. Birla, 'Beyond the Core Competency Debate,' *The Economic Times*, 26 May, 1998.
11. J.B. Barney, *Gaining and Sustaining Competitive Advantage*, (Reading, MA: Addison–Wesley Publishing Company, 1997).
12. M.E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, (New York: The Free Press, 1985).
13. A. Miller and G.G. Dess, *Strategic Management* (New York: McGraw-Hill, 1996): 73.
14. APQC, *Basics of Benchmarking* (Houston, Texas: American Productivity and Quality Centre, 1993).
15. G.A. Steiner, J.B. Miner, and E.R. Gray, *Management Policy and Strategy - Text, Readings, and Cases*, 2nd ed. (New York: MacMillan 1982): 577.
16. *Gartner Group Report*, September, 1996.
17. C. Willen, 'Airborne Opportunities,' *Intelligent Enterprise,* 5, no. 2, (14 January, 2002): 11–12.
18. R.S. Kaplan and D.P. Norton, 'The Balanced Scorecard—Measures that Drive Performance,' in *Harvard Business Review* (January-February, 1992): 71.
19. R. S. Kaplan and D. P. Norton, 'Using the Balanced Scorecard as a Strategic Management System,' *Harvard Business Review* (January-February, 1996): 75–85.
20. W.F. Glueck and L.R. Jauch, *Business Policy and Strategic Management,* 4th ed. (New York: McGraw-Hill, 1984): 174–76.
21. A.J. Rowe, R.O. Mason, and K. Dickel, *Strategic Management and Business Policy: A Methodological Approach*, (Reading, Mass: Addison-Wesley 1982): 17–21.
22. Glueck and Jauch, *op.cit.,* p.175.
23. *Ageing in the Twenty-first Century: A Celebration and a Challenge* (United Nations Population Fund UNFPA, New York, and HelpAge International, London, 2012); Aarti Dhar, 'Concerns Over an Aging India,' *The Hindu*, 7 October, 2012; Ministry of Statistics and Programme Implementation, Government of India, *Situation Analysis of the Elderly in India*, New Delhi, June 2011; For criticism of HelpAge India see, for instance, *http://www.consumercomplaints.in/?search=HELPAGE-INDIA*; HelpAge India Annual Report 2013–14 available at *http://www.helpageindia.org/images/pdf/annual-report-13-14.pdf*; Website of HelpAge International at *http://www.helpage.org/* and HelpAge India at *http://www.helpageindia.org/*. All websites retrieved 1 December, 2014.

6
CHAPTER

Corporate-level Strategies

Learning Objectives

After reading this chapter you should be able to:

LO 1 Explain the basic types of corporate strategies
LO 2 Describe how organisations employ concentration strategies
LO 3 Compare and contrast horizontal and vertical integration strategies
LO 4 Demonstrate understanding of related and unrelated diversification strategies
LO 5 Discuss the various aspects of internationalisation strategies
LO 6 Explain the types of retrenchment strategies
LO 7 Discuss the rationale for corporate restructuring and its implementation in Indian context

Chapter Outline

Preview Case

STEAMING AHEAD: CORPORATE STRATEGIES AT THERMAX*

Thermax Ltd. (formerly Wanson India Pvt. Ltd.) was formed in 1966 to make small boilers. Building their business definition around the basic customer function of steam generation, they saw the 1973 oil crisis as an opportunity and started manufacturing coal-fired boilers. From steam generation to water treatment was a logical extension, extended further to manufacturing pollution-control equipment.

Thermax Group is providing a range of engineering solutions to the energy and environment sectors. It is headquartered in Pune, India, and operates globally through international offices, sales and service offices and its manufacturing facilities in India and overseas. The group consists of domestic wholly-owned subsidiaries, overseas wholly-owned subsidiaries, and joint ventures. The vision of the company is 'to be a globally respected high-performance organisation offering sustainable solutions in energy and environment'.

A historical account shows how the company has followed several types of corporate strategies in its corporate history in order to ensure survival, growth, and profitability.

Late 1960s: The company is formed; starts making coil-type packaged boiler and thermic fluid heaters.

The 1970s: Expansion to make the first packaged tube boiler for Indian coal and other solid fuels; related diversification into water-treatment plants; takeover of Tulsi Fine Chemicals and the establishment of a chemicals division; expansion for making large field-erected boiler; related diversification into surface-coating and pollution-control equipment.

The 1980s: Related diversification into energy conservation equipment; unrelated diversifications into software, financial engineering, electronics, and related to oil-field equipment projects; joint venture with Deviebiss; joint venture with Babcock and Willcox.

The 1990s: International strategy of setting up a resin plant in the US; strategic alliances with fuel suppliers; Joint venture with US-based Engineering, Procurement and Construction services businesses, for energy service business; related diversification into cogeneration business; divestment of Thermax Engineering Construction Company as a wholly-owned subsidiary; joint venture for Culligan International for water treatment business.

The 2000s: Faced losses for the first time in 2001; entire board of directors stepped down; embarked on restructuring and turnaround; divestments from and abandoning joint ventures in non-core sectors such as electronics and software, and focus on core activities in energy and environment, and power and chemicals; continual internal expansion; moving beyond exports through international expansion.

The 2010s: Strategic alliances and expansion continues; builds up good order book positions; enhanced activity in solar cooling systems and captive power plants; acquisition of German steam products company Rifox.

Beyond 2010s: Focus on technology tie-ups for technology upgradation in energy and environment through joint ventures; related diversification into high tech power generation equipment; offering outsourced energy management and power plant management services; participating in green energy programmes; operating in six core businesses of boiler and heater, cooling and heating, power generation, chemicals and water, air pollution control, and renewable energy.

Thermax represents a typical company that is trying to consolidate its position and absorb the impact of the rapid changes and development it has experienced over the past several years. It is attempting to increase its international presence with higher exports and leveraging its cost advantage supported by technical expertise in its core competence area of energy and environment through leveraging group synergy. Operational excellence and cost optimisation remain core functional strategies. A slump in the capital goods industry, energy price fluctuations, exchange and interest rate fluctuations, and concentration in its business segments pose major risks to Thermax.[1]

Environmental Appraisal (Chapter 4) and Organisational Appraisal (Chapter 5) lead to the generation of strategic alternatives. These are the possible strategies that an organisation can consider for adoption. The choice of strategies is wide and much would depend on how an organisation perceives its strengths and weaknesses vis-à-vis the opportunities and threats the external environment presents.

Historical accounts, such as the one illustrated in the preview case on Thermax, demonstrate the ups and downs organisations go through during the course of their journey. They encounter events and happenings in their external environment making them adapt or change their path. They rely on their internal capabilities to face competition from outside. They continually make moves to keep themselves fit and ready to take on the onslaughts that inevitably come their way. Witness how Thermax, starting as a small private boiler maker, develops into a large, respected, internationalised organisation venturing into so many different fields, stumbling on the way, and then pulling itself up to steam ahead. We are interested in the corporate strategies such as Thermax used: concentration, diversification, and internationalisation. This chapter will introduce us to the corporate strategies.

6.1 CORPORATE STRATEGIES

LO 1

Corporate-level strategies (or simply, corporate strategies) are basically about decisions related to:

- Allocating resources among the different businesses of a firm;
- Transferring resources from one set of businesses to others;
- Managing and nurturing a portfolio of businesses; and
- Creating value across businesses in the portfolio.

These decisions are taken so that overall corporate objectives are achieved.

Corporate strategies help to exercise the choice of direction that an organisation adopts. There could be a small business firm involved in a single business or a large, complex and diversified conglomerate with several different businesses. The corporate strategy in both these cases is about the basic direction of the firm as a whole. In the case of the small firm having a single business it could mean the adoption of courses of action that yield better profitability for the firm. In the case of the large, multi-business firm the corporate strategy is also about managing various businesses for maximising their contribution to the overall corporate objectives and transferring resources from one set of businesses to others such that organisation is able to create value across those businesses for its stakeholders.

Recall that in Section 2.4, we referred to the concept of business definition. Abell has suggested defining a business along the three dimensions of customer groups, customer functions, and alternative technologies.[2] The business definition for a small firm would be simple while that for a large firm is quite complex. A large firm would consist of several businesses each of which could be defined in terms of these three dimensions.

The complexity of large firms arises from the fact that each of its businesses, defined along the three dimensions, result in a variety of customer groups, customer functions, and alternative technologies that a firm is involved with. It is therefore common to find multi-business firms with interests in serving a diverse base of customer groups, performing for them a variety of customer functions, and making use of a range of several different technologies.

An analysis based on business definition provides a set of strategic alternatives that an organisation can consider. 'Strategic alternatives revolve around the question of whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector'.[3] According to Glueck, there are four strategic alternatives: stability, expansion, retrenchment, and any combination of these three.

Let us go into an explanation of each of these four strategic alternatives in the rest of this section.

Stability Strategies

The corporate strategy of stability is adopted by an organisation when it attempts at incremental improvement of its performance by marginally changing one or more of its businesses in terms of their respective customer groups, customer functions, and alternative technologies—either singly or collectively.

In order to understand how stability strategies work, here are three examples to illustrate how organisations could aim at stability in each of the three dimensions of customers groups, customer functions, and alternative technologies respectively.

- A packaged tea company provides special service to its institutional buyers, apart from its consumer sales through market intermediaries, in order to encourage bulk buying and thus improve its marketing efficiency.
- A copier machine company provides better after-sales service to its existing customers to improve its company and product image and increase sales of accessories and consumables.
- A steel company modernises its plant to improve efficiency and productivity.

Note that all three companies here do not go beyond what they are doing presently; they serve the same markets with the present products using the existing technology. The strategies aim at stability by causing the companies to marginally improve their performance or, at least, letting them remain where they are, in case, they face a volatile environment and a highly competitive market. Under stability strategies, organisations do not embark on any radical change but just attempt to make operational improvements.

The major reasons for adopting stability strategy are as follows:

- It is less risky, involves less changes and people feel comfortable with things as they are.
- The environment faced is relatively stable.
- Expansion may be perceived as being threatening.
- Consolidation is sought through stabilising after a period of rapid expansion.

Stability strategies could be of three types: no-change; profit; and pause / proceed with caution strategies each of which is discussed next.[4]

No-change strategy As the term indicates, this stability strategy is a conscious decision to do nothing new, i.e. to continue with the present business definition. This could be characterised as an absence of strategy though in reality it is not so. Taking no decision sometimes is a decision too!

When faced with a predictable and certain external environment and stable organisational environment, an organisation decides to continue with its present strategy. This is so because the organisation does not find it worthwhile to alter the present situation by changing its strategy. There are no significant opportunities or threats operating in the external and industry environments. There are no major new strengths and weaknesses within the organisation. There are no new competitors and no obvious threat of substitute products. Taking into account the external and internal environmental situation, the organisation decides not to do anything new.

One must, however, make a distinction among an inactive organisation that does not wish to change its strategy owing to inertia and an organisation that consciously decides to continue with its present strategy. In the former case, it would be dangerous, and even reckless, for the organisation to be complacent. In the latter case, it would be prudent for the organisation to continue with its present strategies.

Several small- and medium-sized organisations operating in a familiar market—more often a niche market that is limited in scope—and offering products or services through a time-tested technology relying on the no-change strategy. Such a strategy serves the organisations well until it is time to wake up in the face of threats emerging in the environment or some major upset occurring which threatens the existence of the organisation.

Profit strategy No organisation can indefinitely continue with a no-change strategy. Things do change—and they do so often in the present business environment in India—and the organisation is faced with a situation where it has to do something. An organisation may assess the situation and assume that its problems are short-lived and will go away with time. Till then, the organisation tries to sustain its profitability with short-term measures such as by adopting a profit strategy. For instance, in a situation where the profitability is drifting lower, organisations undertake measures to reduce investments, cut costs, raise prices, increase productivity, or adopt some such measures to tide over what are assumed to be temporary difficulties. The problems are ascribed to unfavourable but transient external factors such as economic recession, government attitude, industry downturn, competitive pressures, and the like. The organisation assumes that these problems are going to remain only in the short run and the situation would turn favourable after some time. Till such time it is better to lie low and sustain profitability by whatever means possible. Obviously such a strategy could only work if the problems indeed are temporary. If the problems persist, then such a strategy only deteriorates the organisation's strategic position.

Examples abound of Indian companies taking desperate measures to hold on in times of crises. A frequent method to tide over temporary difficulties and to keep afloat through a profit strategy is to sell off assets such as prime land in a commercial locality and move out to the suburbs. Others have hived off some divisions in non-core businesses to raise money while a few have resorted to provide services to other organisation needing outsourcing facilities.

Pause/proceed-with-caution strategy Imagine an advance reconnaissance party going ahead to monitor the situation before the troops move in full strength to encounter the enemy. Pause / proceed-with-caution strategy is such a tactic. It is employed by organisations that wish to test the ground before moving ahead with a full-fledged corporate strategy or organisations that have had a blistering pace of expansion and wish to rest awhile before moving ahead. This is essential in several cases where an intervening phase of consolidation is necessary before an organisation could embark on further expansion strategies. The purpose is to let the strategic changes seep down the organisational levels, structural changes to take place, and the systems to adapt to the new strategies. In this manner, pause / proceed-with-caution strategy is a temporary strategy just like the profit strategy. It differs though from the profit strategy in the way the objectives are defined. While profit strategies are a forced choice aimed at sustaining profitability till such time that environmental conditions become more hospitable, the pause / proceed-with-caution strategies is a deliberate and conscious attempt to adjourn major strategic changes to a more opportune time or when the organisation is ready to move on with rapid strides again.

In the Indian shoe market dominated by Bata and Liberty with increasing presence of global brands such as Adidas, Nike, or Reebok, some of you might not be aware that Hindustan Unilever (HUL), better known for soaps and detergents, produced substantial quantities of shoes and shoe uppers for the export markets. In late-2000, it started unobtrusively to sell a few thousand pairs in the cities to gauge market reaction. This was a proceed-with-caution strategy before it decided to focus on the export markets through Ponds Exports based at Pondicherry. Shoes were clearly a non-core area for HUL.

Stability strategies result from attempts by an organisation at incremental improvement of functional performance. This corporate strategy can be relevant for an organisation operating in a reasonably certain and predictable environment. Usually followed by small- and medium-sized organisations, stability strategies can be useful in the short run when such organisations are satisfied with their current performance. The essence of stability strategies is, therefore, not doing anything but sustaining moderate growth in line with the existing trends. Most firms are not content with just maintaining stability and wish to move ahead adopting expansion strategies.

Expansion Strategies

The corporate strategy of expansion is followed when an organisation aims at high growth by substantially broadening the scope of one or more of its businesses in terms of their respective customer groups, customer functions, and alternative technologies—singly or jointly—in order to improve its overall performance. Expansion strategies are also often known as growth or intensification strategies.

Three examples to show how companies can aim at expansion either in terms of customer groups, customer functions, or alternative technologies are as follows:

- A chocolate manufacturer expands its customer groups to include middle-aged and old persons to its existing customers comprising children and adolescents.
- A stockbroker's firm offers personalised financial services to high net-worth investors apart from its normal functions of dealing in shares and debentures in order to increase the scope of its business and spread its risks.
- A printing firm changes from the traditional letter press printing to desk-top publishing in order to increase its production and efficiency.

In each of the cases mentioned, the company moves in one or the other direction so as to substantially alter its present business definition. Expansion strategies have a profound impact on the company's internal configuration causing extensive changes in almost all aspects of internal functioning.

The major reasons for adopting expansion strategies are as follows:

- It may become imperative when environment demands increase in pace of activity.
- Increasing size may lead to more control over the market vis-à-vis competitors.
- Advantages from the experience curve and scale of operations may accrue.
- Psychologically, strategists may feel more satisfied with the prospects of growth from expansion: chief executives may take pride in presiding over organisations perceived to be growth-oriented.

We will discuss four types of expansion strategies of concentration, integration, diversification, and internationalisation later in this chapter.

Sometimes strategists, like army commanders, think it better to retreat than to advance. It is in such situations that retrenchment is a feasible strategic alternative.

Retrenchment Strategies

The corporate strategy of retrenchment is followed when an organisation aims at contraction of its activities through substantial reduction or elimination of the scope of one or more of its businesses in terms of their respective customer groups, customer functions, or alternative technologies—either singly or jointly—in order to improve its overall performance.

Retrenchment involves total or partial withdrawal from a customer group, customer function, or use of an alternative technology in one or more of a firm’s businesses as can be seen from the following situations:

- A pharmaceutical firm pulls out from retail selling to concentrate on institutional selling in order to reduce the size of its sales force and increase marketing efficiency.
- A corporate hospital decides to focus only on specialty treatment and realise higher revenues by reducing its commitment to general cases which are typically less profitable to deal with.

- A training institution attempts to serve larger clientele through the distance learning system and discard its face-to-face interaction methodology of training in order to reduce its expenses and use the existing facilities and personnel more efficiently.

In this manner, retrenchment attempts to 'trim the fat' and results in a 'slimmer' organisation bereft of unprofitable customer groups, customer functions, or alternative technologies. All the situations described earlier are, in fact, an over-simplification of the complex reality that an organisation faces. In order to deal with the real-life situations, organisations have to evolve a combination of the three strategies as we will see in the next sub-section.

The following are major reasons for adopting retrenchment strategies:

- The management no longer wishes to remain in business, either partly or wholly, due to continuous losses and the organisation becoming unviable.
- The environment faced is threatening.
- Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

We will discuss three types of retrenchment strategies: turnaround, divestment, and liquidation strategies later in this chapter.

Combination Strategies

The combination strategy is followed when an organisation adopts a mixture of stability, expansion, and retrenchment strategies either at the same time in its different businesses or at different times in one of its business with the aim of improving its performance.

Any combination strategy is the result of a serious attempt on the part of strategists to take into account the variety of environmental and organisational factors that affect the process of strategy formulation. Complicated situations generally require complex solutions. Combination strategies are the complex solutions that strategists have to offer when faced with the challenges of real-life business.

Observe how the two companies described next deal with the complex situations they face:

- A paints company augments its offering of decorative paints to provide a wider variety to its customers (stability) and expands its product range to include industrial and automotive paints (expansion). Simultaneously, it decides to close down the division which undertakes large-scale painting contract jobs (retrenchment).
- Over the years strategic changes at a large business group indicate that it has been strengthening its manufacturing base and divesting its trading activities. Stability has been aimed at in some of its divisions by retrenching the unprofitable products and services while major expansion has taken place in the case of its industrial products and construction business. A variety of strategies have thus been followed, both sequentially and simultaneously, creating a complex web of strategies in line with the nature of the conglomerate that the company actually is.

Combination strategies (also referred to as mixed or hybrid strategies) are a mixture of stability, expansion, or retrenchment strategies applied either simultaneously (at the same time in different businesses) or sequentially (at different times in the same business).

The major reasons for adopting combination strategy are as follows:

- The organisation is large and faces a complex environment.
- The organisation is composed of different businesses, each of which lies in a different industry requiring a different response.

It would be difficult to find any organisation that has survived and grown by adopting a single 'pure' strategy. The complexity of doing business demands that different strategies be adopted to suit the situational demands made upon the organisation. An organisation which has followed a stability strategy for quite sometime has to think of expansion. Any organisation which has been on an expansion path for long has to pause to consolidate its businesses. Multi-business organisations—as most large and medium India companies are now—have to follow multiple strategies either sequentially or simultaneously.

Consider these cases of companies which have adopted multipronged strategies to deal with the complexity of the environment they face:

- The Murugappa group is a pan-Indian diversified group with major presence in several businesses such as auto components, cycles, tubes, and fertilisers. Tube Investments of India (TI), a Murugappa group company, created strategic alliances in its three major businesses: tubes, cycles, and strips. EID Parry created joint ventures in sugar industry. Backward integration took place in the fertiliser and abrasives businesses. Post-2000, the company has been using the joint venture route towards aggressive internationalisation.
- Indian Tobacco Company (ITC) Ltd. is a diversified conglomerate having a varied a corporate portfolio consisting of fast-moving consumer goods (FMCG), hotels, paperboards and packaging, agribusiness, and information technology (IT). Starting in 1910, it adopted backward integration in 1925—into packaging and printing business. It diversified into hotels in 1975 and agribusiness in 1990. It adopted a turnaround strategy for the speciality paper business, Triveni Tissues, after its acquisition and merger with its paperboards business while financial services business was divested.
- Aditya Birla group of companies is a diversified conglomerate with businesses in several sectors has applied practically all types of corporate strategies in its illustrious history dating back to 1857. It has several joint ventures abroad notably in South East Asia and China claiming to be India's first multinational company. On the way, it has diversified, divested, acquired, merged and demerged companies and businesses adopting an array of combination strategies.
- Pidilite Industries, the maker of Fevicol adhesives, contemplated expansion through related diversification through extension of its product portfolio across three business segments: adhesives and sealants, construction paints and chemicals, and art materials. It divested its speciality chemicals business and acquired M-Seal from the Mahindras. Its international expansion and joint ventures in recent years have been in West Asia, Singapore, and Brazil.
- Candico's, the domestic confectionery company's,international expansion plans include a combination of organic and inorganic strategies, through strategic acquisitions and mergers, joint ventures or setting up of independent manufacturing facilities in individual markets. It acquired several plants in South Africa to cater to countries in that region. It entered into joint ventures with leading European vendors for manufacturing high quality products through international partnerships. It has a joint venture with Eurobase of Belgium and Curt Georgi of Germany. The company is following an equally aggressive domestic expansion strategy within India.
- The examples offer just a glimpse of the constant moves that companies in India make in order to survive, grow, and be profitable.Organisations do not depend on one strategy alone and evolve a complex network of combination strategies to deal with the changing environment. In fact, how to deal with, and adapt to, environmental changes is what strategic management is all about.
- The following sections will discuss the four types of expansion strategies. As we will see, the expansion strategies are a group of strategies that are more popular options for organisations. As the Indian economy grows, the corporate and other sectors of the economy too experience an urge for sharing in the fruits of development. We start with the obvious first option for many organisations: doing more of what one does.

6.2 CONCENTRATION STRATEGIES LO 2

Concentration is a simple, first-level type of expansion strategy. It involves converging resources in one or more of a firm's businesses in terms of their respective customer needs, customer functions, or alternative technologies—either singly or jointly—in such a manner that expansion results. In strategic management terminology concentration strategies are known variously as intensification, focus, specialisation or organic growth strategies. Among them, organic growth that means 'growth from within' as a strategy is often contrasted with inorganic growth that takes the firm beyond toward diversification.

Peters and Waterman (1982) in their *In Search for Excellence* advocated a parameter for successful firms which they called as 'stick to the knitting'.[5] Concentration strategies are, in other words, the 'stick to the knitting' strategies. According to Peters and Waterman, excellent firms tend to rely on doing what they know they are best at doing. But that could be a constraining view as it would limit the firm's expansion beyond its present business definition.

In practical terms, concentration strategies involve investment of resources in a product line for an identified market with the help of proven technology. Most of you must have learned in your basic marketing course the classic Ansoff's product-market matrix shown in Exhibit 6.1. This was proposed in a 1957 article in the *Harvard Business Review*and is still used by strategic planners and marketers interested in finding out the growth directions for their organisations. We will see here three types of growth strategies proposed by Ansoff and take up diversification in a later section.

Exhibit 6.1 Ansoff' Product-Market Matrix

Market \ Product	Present	New
Present	Market Penetration	Product Development
New	Market Development	Diversification

Source: Adapted from H.I. Ansoff: 'Strategies for Diversification,' in *Harvard Business Review,* 5 (1957): 113–24.

The product-market matrix provides us three types of concentration strategies:

1. *Market penetration* involves selling more products to the same market. A firm may attempt focussing intensely on existing markets with present products using a market penetration type of concentration. Besides the primary objective of increasing usage by existing customers, market penetration strategies are also used to maintain or increase market share of present products, restructure a mature market by driving out competitors, and secure dominance in growth markets. Low-cost airlines in India went into aggressive marketing with low pricing adopting a market penetration type of concentration strategy resulting in a very high growth rate for the aviation industry for several years.
2. *Market development* involves selling same products to new markets. It may try attracting new users for existing products resulting in a market development type of concentration. New markets are not necessarily in the geographical sense; they can be demographic, for instance, offering the same product with a different pricing to a different set of customers. Yet, finding new regions where the same product could be sold remains the basic thrust in a market development strategy. Coir is a major agricultural commodity produced in southern, north-eastern, and western India. Coir industry has faced severe crisis due to the synthetic foam and fibres products. Market development type of concentration strategies in the

coir industry have attempted to present coir products as an environment-friendly product for discerning customers especially in exports markets.

3. *Product development* involves selling new products to same markets. It may introduce newer products in existing markets by concentration on product development. Tourism industry in India has not been able to attract new customers in significant numbers. New products such as selling India as a golfing or Ayurveda-based medical treatment destination are some of the product development efforts in tourism industry to attract more tourists.

It is immediately apparent that concentration strategies would apply to situations where the firm finds expansion worthwhile. For instance, the industries that a firm belongs to should possess a high potential for growth and be sufficiently attractive for concentration to take place. Internally, the firm should be strong enough to sustain expansion; it should, say, have adequate funds to invest in additional resources required for expansion to take place or it should be able to develop new competencies required to develop new products and markets.

For expansion, concentration is often the first-preference strategy for a firm for the simple reason that it would like doing more of what it is already doing. A firm that is familiar with an industry would naturally like to invest more in known businesses rather than unknown ones. Each industry is unique in the sense that there are established ways of doing things. Firms operating in an industry for long are familiar with these ways. So they prefer concentration on these industries.

Bajaj Auto has consistently concentrated on two- and three-wheelers since the last several years as it finds it to be a high growth and attractive industry to invest in. It has tried various means to sustain its market share in a competitive market. At different times it has adopted variations of concentration strategy of market penetration (e.g. selling more in urban centres), market development (e.g. selling to upwardly mobile customers in rural areas), and product development (e.g. state-of-the-art motorcycles and ungeared scooters) For its rivals, it remained a formidable competitor with proven products manufactured through tried and tested technology and sold in familiar markets until more agile competitors like Honda India and Hero MotoCorp.

Exide Industries is the successor to a century-old British company Chloride Electric Storage and has been operating in India since 1946. For years it has consistently focused on the storage batteries products where it is the market leader and a popular brand. It makes and sells automotive, industrial, and submarine batteries. Only much later it ventured one step forward into the home uninterrupted power supply or inverter market.

Concentration strategies have several advantages:

- Concentration involves minimal organisational changes so it is less threatening and less problematic: the managers of a firm are more familiar and comfortable with present businesses.
- It also enables the firm to master one or a few businesses and enable it to specialise by gaining an in-depth knowledge of these businesses.
- Intense focussing of resources on a few businesses may also create conditions for the firm to develop a competitive advantage.
- Systems and processes within the firm are developed in such a way that people are familiar with them.
- Decision-making process is under less strain as there is high level of predictability. Past experience is valuable as it is replicable.

But concentration strategies have their limitations too.[6] Putting all eggs in one basket has its own problems:

- Concentration strategies are heavily dependent on the industry. Adverse conditions in an industry affect the firms if they are intensely concentrated. The potential for industry growth, industry attractiveness, and industry maturity are variable factors. If an industry goes into a recession, the concentrated firm in it finds it too difficult to withdraw from it. If an industry become too crowded with competitors its attractiveness decreases for existing players. For an industry that has matured it places constraints on a concentrated firm for further expansion.

- Factors such as product obsolescence, fickleness of markets, and emergence of newer technologies are threats to concentrated firms. A firm too heavily invested in either of these faces risks.
- Concentration strategies may result in doing too much of a known thing. Such a situation may create organisational inertia; managers may not be able to sustain interest and find the working less challenging and stimulating.
- Concentration strategies may lead to cash flow problems that pose a dilemma before a firm. For expansion through concentration large cash inflows are required for building up assets while the businesses are growing. But when these businesses mature, firms often face a cash surplus with little scope for investing in the present businesses. In fact this may be the reason why firms look for investment opportunities outside the present industry resulting in integration and diversification.

When firms use their existing base to expand in the direction of their raw materials or the ultimate consumers or, alternatively, they acquire complementary or adjacent businesses integration takes place. Expansion through integration is the subject matter of the next section.

6.3 INTEGRATION STRATEGIES

LO 3

In contrast to concentration strategies where organisations do not move beyond their own boundaries, integration strategies push the organisations outside their boundaries. Integration means expanding through combining businesses or activities related to the present business or activity of a firm. This can be done in two ways. One, the organisation can take over or partner with another firm at the same point of production to expand its size of operations in the present business. This is integrating horizontally. A shoemaker making ladies' shoes can take over or partner with another shoemaker making ladies' shoes or one making gents shoes integrating horizontally. Two, an organisation can take over or partner with another firm at a different point of production in which case it is integrating vertically. The shoemaker can enter into marketing arrangement with a wholesaler of leather products orcan take over or partner with a finished leather producer making it a vertical integration. As you will note, the pivot in integration strategies is the value chain. In horizontal integration, the shoemaker remains at the same point of value chain while in vertical integration it either moves backward or forward on the value chain.

Igor Ansoff has presented another matrix, besides the product-market matrix shown in Exhibit 6.1, which explains the different types of integration (as well as diversification) strategies. This matrix is presented in Exhibit 6.2.

Exhibit 6.2 Ansoff's Matrix for Diversification Strategies

	New products	
	Related technology	Unrelated technology
New functions		
Firm its own customer	Vertical integration	
Same type of product	Horizontal diversification	
Similar type of product	Marketing and technology-related diversification	Marketing related concentric diversification
New type of product	Technology-related concentric diversification	Conglomerate diversification

Source: Adapted from H.I. Ansoff, *Corporate Strategy,* (New York: McGraw-Hill, 1965): 132.

According to Ansoff, firms operate on the two dimensions of new products and new functions. New products could be made through related technology or unrelated technology. The new functions could range from the firm being its own customer to an entirely new type of product. Based on these dimensions it is possible to have four types of integration and diversification strategies. Among the integration strategies we have two types: horizontal and vertical integration. We discuss horizontal and vertical integration now. The two types of diversification strategies will be taken up in the next section.

Horizontal Integration

When an organisation takes up the same or similar types of products at the same level of production or marketing process keeping it at the same stage of the value chain, it is said to follow a strategy of horizontal integration. For example, a luggage company taking over its rival luggage company is horizontal integration (also known as takeover, acquisition, or merger). Horizontal integration strategy results in a bigger size and complementarity with concomitant benefits of stronger competitive position in the industry. It may be frequently adopted with a view to expand geographically by buying a competitor's business, to increase the market share, to benefit from economies of scale, and to complement strengths. Yet, it does not take the organisation beyond its existing business definition. It still remains in the same industry serving the same markets and customers through its existing products by the means of same technologies.

In terms of value chain terminology, horizontal integration strategy keeps the organisation at the same point of production. This means that if the company was manufacturing shoes and it adopts the horizontal integration strategy it becomes a bigger shoe manufacturer. A company making cat food adding dog food to its product range still remains within the animal feed industry. A hypermarket, that adds to its repertoire of items being sold, through horizontal integration, does not move it out of the retailing industry.

Horizontal integration exists both in terms of the marketing and operations functions. When a company wishes to sell in various geographical market segments it can have a number of subsidiaries selling the same products widely making it horizontally integrated in terms of marketing. When a company has several factories producing the same products and selling them through an integrated marketing network it is horizontally integrated in terms of production.

The banking industry in India offers a relevant context for horizontal integration strategy being used for consolidation. There has been a spate of takeovers of smaller banks in order to consolidate and attain bigger size. The takeover of Ganesh Bank by Federal Bank, Nedungadi Bank by Global Trust Bank (GTB), Sangli Bank by Industrial Credit and Investment Corporation (ICICI) Bank, and United Western Bank (UWB) by Industrial Developmental Bank of India (IDBI) are some of the examples of horizontal integration. A common factor in these consolidation exercises is the synergy foreseen in term of the larger banks expanding their reach and enhancing their regional presence in India. This is the advantage of complementarity where horizontal integration serves both the parties.

Consider the specific case of the horizontal integration by the amalgamation of UWB into IDBI Bank. The Industrial Developmental Bank of India was able to substantially increase its retail presence by adding the 230-bank branches network to its own smaller 181 branches network. Getting around the Reserve Bank of India's (RBI's) restriction on opening new bank branches is easier through such amalgamation. In terms of marketing, IDBI got to enhance its credit profile: IDBI is dominant in industrial financing while UWB is strong in agricultural credit financing through its semi-urban and rural branches. Owing to its past history of being a financial institution, IDBI mostly was in long-term borrowings. With UWB it got access to lower cost deposit base. Horizontal integration thus can prove to be win-win game for both the banks.[7]

The nature of horizontal integration strategy offers a unique benefit to industries and sectors where the small size of organisations is a challenge to overcome in realising objectives of efficiency and effectiveness. These could be small-scale industries, cooperative societies, and non-governmental organizations (NGOs).

These are typically small in size with limited impact. For them, horizontal integration strategy often becomes an innovative means of increasing the size of the impact rather than merely augmenting the physical size. A group of small-scale industrial units in similar product-market lines may get together to make bulk purchases in order to reap the benefits of higher bargaining power with supplier, lower costs, and increased accessibility. Several NGOs working in complementary fields such as microcredit or rain water harvesting may get together to share resources, expertise, networking, and becoming knowledge repositories.

The India-based branch of Plan International brought together five NGOs within India, funded by Childreach, illustrating how scaling up of impact could take place without increasing physical size. The five NGOs worked in different ecological areas, adopted varied strategies of scaling up of impact, and existed in different stages of evolution. Through the means of horizontal integration it became possible to expand the number and diversity of social activities undertaken.[8]

There are many obvious benefits of adopting a horizontal integration strategy:

- *Economies of scale* Horizontal integration invariably leads to a lower cost structure by spreading over the fixed cost of operations over a larger base of products thereby reducing the per-unit cost resulting in economies of scale.
- *Economies of scope* When horizontal integration results in two or more organisations using the same resource base to produce a variety of products in the product range offered it results in economies of scope. This is due to better utilisation of assets.
- *Increased product differentiation* Horizontal integration allows organisations to offer customers a wider range of products that can be bundled together. Through product bundling the customer gets to buy a complete range of products at a single combined price thus providing the advantage of product differentiation.
- *Increased market power* Bigger size of operations enables the organisation adopting horizontal integration to exercise increased market power over suppliers and customers.
- *Replicating a successful business model* An organisation successful at employing a business model gets to replicate it with another organisation through horizontal integration.
- *Reduction in industry rivalry* After horizontal integration there are fewer competitors left in the industry thereby reducing the intensity of industry rivalry.

The several advantages of horizontal integration should not blind us to the risks. There are some risks involved in horizontal integration:

- There is little practical evidence to show that horizontal integration in the form of mergers actually does increase the value of an organisation.
- Horizontal integration increases size. But increasing size may attract the provisions of the Monopolies and Restrictive Trade Practices (MRTP) Act or whichever antitrust laws are in force in a country.
- Just like computer hardware and software are two entirely different products, economies of scope do not necessarily arise out of horizontal integration.

Vertical Integration

When an organisation starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity undertaken with the purpose of either supplying inputs (such as raw materials) or serving as a customer for outputs (such as marketing of firm's product) is vertical integration.

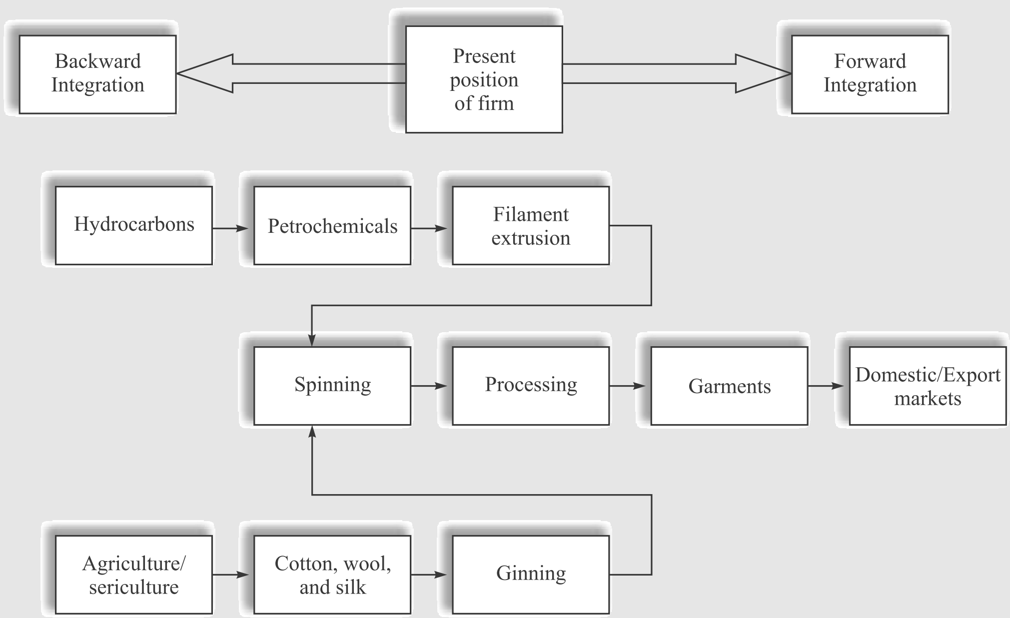
Vertical integration could be of two types: backward and forward integration. *Backward integration* means retreating to the source of raw materials. *Forward integration* means moving the organisation to the ultimate customer or end user.

Transaction cost economics, a branch of study in economics of transactions and their costs, helps to explain the situation where integration strategies could work. According to transaction cost economics, a 'make or buy' decision is taken when firms wish to negotiate with suppliers or buyers. The costs of making the items used in the manufacture of one's own products are to be evaluated against the cost of procuring them from suppliers. If the costs of making are less than the cost of procurement then the firm moves up the value chain to make the items itself. Likewise, if the costs of selling the finished products are lesser than the price paid to the sellers to do the same thing then it is profitable for the firm to move down on the value chain. In both these cases the firm adopts an integration strategy.

Integration could also be a subset of diversification strategies, as we will shortly see, for it involves doing something different from what the firm had been doing earlier. Several process-based industries such as hydrocarbons, petrochemicals, steel or textiles have integrated firms that perform a wide variety of activities and operate in different businesses. These firms deal with products having a value chain extending from the basic raw materials to the ultimate consumer. For example, a fully integrated oil firm can perform series of functions like exploration, production, transportation, refining, and marketing and sales. Firms operating at one end of the value chain attempt to move up or down through the process, integrating activities adjacent to their present activities.

Exhibit 6.3 presents a simplified value chain system operating in the textile industry and how integration strategies might be applied. The World Trade Organization (WTO) mandated abolition of textile quotas, removal of restrictions of multi-fibre agreement, and the resultant reduced profit margin have changed the business environment for textile companies. Several of the Indian textile companies have been adopting vertical integration strategies. Spinning companies getting into weaving and garments manufacturing adopt forward integration while fabric and garment producers entering into spinning adopt backward integration to ensure supply of good quality yarn.[9]

Exhibit 6.3 Integration Strategies Based on Value Chain System in Textile Industry



Generally when firms integrate vertically they do so in a complete manner, i.e. they move backward or forward decisively resulting in a full integration. When you read about a fully integrated textile or steel mill, it means a company that traverses the full range of value chain system activities from raw materials to marketing. But when a firm does not commit itself fully it is possible to have partial vertical integration strategies too. Two such partial vertical integration strategies are taper integration and quasi integration.

Taper integration strategies require firms to make a part of their own requirements and to buy the rest from outside suppliers or when firms sell some of their products through company outlets and others through independent retailers. Through *quasi integration strategies* firms purchase most of their requirements from other firms in which they have an ownership stake or when firms sell most of their products through their own stores. Ancillary industrial units and outsourcing through subcontracting are adapted forms of quasi integration. For outsourcing to take place firms usually create captive supply sources by providing a part of the manufacturing requirements such as design and blueprints and raw materials to the subcontractors who then make the parts and supply to the firm. Outsourcing has generated considerable interest in India owing to its importance to the growing IT industry. But outsourcing is a much wider concept as we will see in a later chapter.

All integration strategies require trade-offs to take place. There are relative merits and demerits of integration. Let us have a look at some of the major advantages of adopting vertical integration:

- Greater control over value chain resulting in economies of scale and scope and improving supply chain coordination
- Greater control over market coverage leading to a bigger customer base
- More streamlined manufacturing processes with shorter production cycles
- More opportunities to differentiate products by means of better control of inputs
- Enhancing learning across processes and cross-functional experience
- Raising the entry barriers for potential competitors
- Savings in transportation costs due to proximity of value chain partners

Some of the major pitfalls in using vertical integration strategies extensively are:[10]

- Increased costs of coordinating integration over multiple stages of value chain
- Potential for either excess capacity or under-utilisation of resources because of uneven productivity across different value chain activities
- Technological obsolescence due to relying on outside manufacturers
- Loss of strategic flexibility owing to dependence on outsiders
- Increased mobility and exit barriers
- Tight coupling to poor performing business units owing to dependence
- Lack of information and feedback from suppliers and distributors

Vertical integration has to be used judiciously to avoid the loss of strategic flexibility and higher managerial cost of integration. Similar to concentration strategies, integration strategies carry a risk as the firm commits itself to adjacent businesses all geared to serve the same set of customers groups and customer needs. If the firm is integrated and the principal product fails or becomes obsolete then it faces a grave risk. Further, while integration strategies provide a firm andbetter control over its value chain by creating access to and control of supply and demand the flip side is that it commits the firm to a set of customer needs and customer groups more intensely. Because of these reason, several firms diversify to reduce their risk. Diversification strategies are discussed next.

6.4 DIVERSIFICATION STRATEGIES **LO 4**

Diversification involves a substantial change in business definition—singly or jointly—in terms of customer functions, customer groups, or alternative technologies of one or more of a firm's businesses. Exhibit 6.1

and Exhibit 6.2, referred to in the previous section, provide us an understanding of diversification strategies. When organisations go into new markets with new products it is diversification.

There could be many types of diversification strategies depending on whether the organisation uses related or unrelated technology to make its new products for new markets. When a firm moves beyond vertical integration, it can offer same or similar types of products (e.g. a children's book publisher moving to publishing competitive books or youth magazines) or new types of products (e.g. a book publisher going into carpet manufacturing). In a case where a book publisher goes into publishing magazines, he/she is still, in some ways, in the same type of business. He/she may use the same printing technology to produce both the products. He/she may also choose to offer books on compact discs (CDs) which will still keep him/her in the same business but he/she would be using a different technology. When the book publisher takes up carpet manufacturing, he/she is now in an entirely new business which is in no way related to his/her original business of book publishing either in terms of product, market, or technology. This provides us two basic strategic alternatives of diversification: related and unrelated diversification. In Ansoff's terminology, they are called concentric and conglomerate diversification respectively.

Concentric or Related Diversification

When an organisation takes up an activity related to the existing business definition of one or more of a firm's businesses either in terms of customer groups, customers functions, or alternative technologies, it is concentric diversification. The relatedness is to be seen in terms of the three dimensions of the business definition. If the new business is in any way related to the original business in terms of the customer groups served, customer functions performed, or alternative technologies employed, then it is related or concentric diversification.

Concentric diversification may be of three types:

1. *Marketing-related concentric diversification:* A similar type of product is offered with the help of unrelated technology, e.g. a company in the sewing machine business diversifies into kitchenware and household appliances, which are sold through a chain of retail stores to family consumers. The market relatedness here is in terms of the common distribution channel for sewing machines, kitchenware, and household appliances.
2. *Technology-related concentric diversification:* A new type of product or service is provided with the help of related technology, e.g. a leasing firm offering hire-purchase services to institutional customers also starts consumer financing for purchase of durables to individual customers. The technology relatedness is in terms of the procedure of financing service to institutional and individual customers.
3. *Marketing- and technology-related concentric diversification:* A similar type of product or service is provided with the help of related technology, e.g. a synthetic water tank manufacturer makes other synthetic items such as pre-fabricated doors and windows for residential and commercial establishments sold through hardware suppliers network. The market relatedness here is in terms of the common distribution channels for water tanks and pre-fabricated doors and windows while the technology relatedness is in the common technology of plastic moulding and engineering required for manufacturing these products.

Related diversification is an attractive corporate strategy as it offers the best of both worlds: it enables diversification of the organisation from its original business as well as keeps it close to it in terms of relatedness. Larsen & Toubro (L&T), in the engineering and construction industry in India, is an example of an organisation that has grown consistently owing to its judicious strategy of related diversification. A major part of its revenuecomes from the engineering and construction business. It has minor businesses in other sectors such as electrical and electronics, IT, and machinery and industrial products yet even these sectors in different ways focus on applications for its major business of construction and infrastructure development.

For instance, machinery and industrial products make cement and mining machinery that have use in the construction industry. Thus, L&T has aimed at developing focused, integrated businesses through its related diversification strategies.

Another example of focused-related diversification is from the cooperative sector. Indian Farmers and Fertilisers Cooperative Limited (IFFCO) operates in different businesses on the basis of their relatedness to its sole beneficiary—the Indian farmer. The primary business of IFFCO is the production and distribution of fertilisers. However, its related diversification strategies has taken it into other businesses such as general insurance to offer insurance risk cover to farmers and agricultural commodity trading to enable farmers to gain access to quality testing and warehousing facilities.

Conglomerate or Unrelated Diversification

When an organisation adopts a strategy which requires taking up those activities which are unrelated to the existing business definition of one or more of its businesses either in terms of their respective customer groups, customer functions, or alternative technologies, it is conglomerate diversification. A book publisher going into carpet manufacturing, sporting goods manufacturer entering restaurant business, and a financial services company moving into information technology enabled services are all examples of unrelated diversification.

Offering a new product manufactured through an unfamiliar technology for a new set of customers involves considerable risk. There has to be sound rationale for taking the risk of unrelated diversification. In order to understand the rationale for unrelated diversification we need to understand the condition under which such diversification can be undertaken. These conditions include either an opportunity that is hard to resist or excess cash or both. Often, strategists would embark upon diversification when their organisation has excess capital. Excess capital means surplus cash over and above needed to run the existing businesses profitably and to meet debt commitments. Proper managerial action demands that any surplus cash generated by the organisation must be returned in the form of dividend to shareholders. It can only be reinvested in the present businesses only if there are bright chances of increasing the worth of the organisation and enhancing the shareholders' value. Thus, unrelated diversification can only be justified when the surplus cash reinvested into new ventures can generate more value for the shareholders otherwise it is prudent to return it to them.[11] Carrying the argument further, if shareholders are looking for diversification they could take an individual decision to diversify their own portfolio of investment rather than keep investing in a company that does diversification on their behalf.

In formulating unrelated diversification strategies, strategists act as portfolio managers constantly on the lookout for undervalued companies that might be acquired at low price, quickly turned around for profitability, and sold out at a higher price. The managerial competence required is of financial acumen to identify acquisition candidates, managing the process of acquisition, skill at turning around loss-making businesses, and then selling them in the corporate market for a higher price.

There are several examples of Indian companies in different sectors which have adopted a path of growth and expansion through conglomerate diversification. Almost all private sector business groups, whether family-owned or professional, are diversified entities. AV Birla Group is in a variety of unrelated businesses such as agri-business, carbon black, cement, chemicals, financial services, insulators, mining, non-ferrous metals, retail, telecommunications, textiles, trading solutions and wind power. T.T. Krishnamachari (TTK) Prestige Group has presence in such diverse areas such as consumer products, condoms, health insurance, and pharmaceuticals. Small companies usually can focus on one or few lines of business and if diversified tend to be in related lines. But sometimes even small business groups could venture into unrelated lines of business. For example, New Delhi-based Shiva Group operates in cotton socks, latex gloves, and printing, wood-free, and writing papers.

Public sector organisations, even of very large size, normally would not go beyond their core businesses. When they diversify they do so through vertical integration as it happens in the case of oil and gas industry. But even here sometimes one may come across a company like Indian Oil (IOC) that ventured into retailing that is unrelated to its mainline business of oil. State-level public sector companies likewise do not go beyond their core areas with some exceptions like Sikkim Time Corporation that operates in diverse businesses of watch manufacturing, semiconductors, and television speakers manufacturing.

Non-governmental organisations and voluntary organisations owing to the nature of their activities are usually small and focused on a limited area of activity. Large NGOs like Child Rights and You (CRY) too concentrate action on a restricted area. Within the area they operate in the voluntary organisations can however diversify into unrelated areas. Council for the Advancement of People's Action and Rural Technology (CAPART), for instance, is a well-known voluntary organisation working in the area of rural development. While doing so, its activities encompass a wide range including disability action, disaster management, marketing development, public cooperation, international funding, rural technology, and watershed development.

Why are Diversification Strategies Adopted?

There are many reasons why organisations adopt diversification strategies. In general, the three basic and important reasons are:

1. Diversification strategies are adopted to minimise risk by spreading it over several businesses. For example, a company offering seasonal products (e.g. air coolers) may diversify into another range of seasonal products (e.g. water heaters) to complement its product range in a way so as to offset the disadvantages of one set of products with that of the other.
2. Diversification may be used to capitalise on its capabilities and business model so as to maximise organisational strength or minimise weaknesses. For example, a company having core competence in the area of after-sales service may establish a specialised agency for offering after-sales service for other manufacturers.
3. Diversification may be the only way out if growth in existing businesses is blocked due to environmental and regulatory factors. For example, a cigarette making company perceiving threats to its business owing to the impact of anti-smoking legislation, growing opposition to smoking and increasing health awareness may diversify into paper manufacturing.

Related and unrelated diversification strategies each have their own specific reasons for adoption.

Reasons for concentric or related diversification The reasons for concentric diversification can be deduced from the concept of synergy we discussed in Section 5.1. If you can recall, synergy is an idea that the whole is greater or lesser than the sum of its parts. The organisation enters into a related business so that it can reap the benefits of synergy. The major reasons why organisations adopt concentric diversification strategies are:

- Realising financial synergies in terms of transaction cost savings and tax savings
- Realising marketing synergies by increased market power (e.g. offering a complete range of products) and multipoint market contact with the distribution channel partners (e.g. using the same retailing outlets) and customers (e.g. users of a range of complementary products)
- Realising operational synergies through economies of scale, i.e. increasing size of operations and economies of scope, i.e. using a common base of resources and capabilities for operating varied, but related, businesses
- Realising personnel synergies through utilising human resources with common skill sets and competencies for another business

- Realising informational synergies by using common sources of information, databases, and information networks
- Realising managerial synergies by managing a set of related businesses requiring a common set of administrative skills and experience

Reasons for conglomerate or unrelated diversification While related diversification uses the rationale of synergy creation as the basic reason, in the case of unrelated diversification it is spreading risk over different, unrelated businesses. The stark difference between related and unrelated diversification is therefore in terms of the emphasis placed. The major reasons why organisations adopt unrelated diversification strategies are:

- Spreading business risks by investing in different industries
- Maximising returns by investing in profitable businesses and selling out unprofitable ones
- Leveraging competencies in corporate restructuring by turning around loss-making companies
- Stabilising returns by avoiding economic upswings and downswings through having stakes in different industries
- Taking advantage of emerging opportunities afforded by expanding economy and encouraging government policies
- Migrating from businesses under threat from the business environment
- Exercising of personal choice by industrialists and managers to create industrial empires by owning businesses in diverse sectors

Risks of Diversification

It is a moot point that any diversification—related or unrelated—is risky. These risks arise because of the conditions mentioned as follows:

- Diversification, especially unrelated, is a complex strategy to formulate and implement. It demands a very high level of managerial, operational, and financial competence to be successful.
- Diversification strategies demand a wide variety of skills. Different businesses operating in diverse industries would require dissimilar sets of skills to manage them successfully.
- Diversification results in decreasing commitment to a single or few businesses and diverting it to several of them at the same time. This phenomenon may result in a situation where businesses that need more attention get less and the ones needing little get more. Imbalance of commitment does not help to realise the many benefits of diversification such as maximising returns.
- Diversification often does not result in the promised rewards. Experience around the world shows that it is easy to be lured by the glamour of diversification and not being able to reap the benefits of synergies and strategic advantage ultimately. In fact, cases are legion where the shareholder's value instead of being enhanced has been lost due to diversification.
- Diversification increases the administrative costs of managing, integrating, and controlling a wide portfolio of businesses. This can often offset the savings expected through synergies in the case of related diversification or decreasing risks anticipated in unrelated diversification.

Diversification takes an organisation away from the comfortable confines of concentration and integration strategies to that of an environment fraught with many risks. Unfamiliarity is frightening. Getting through unfamiliar situations safely demands astute survival skills. Emerging successful from risky situations is even more challenging. Yet, the lure of the rewards of success often outweigh the dread of difficulties experienced in the diversification process. That is why diversification strategies—enigmatic they may be—have always attracted business people and industrialists around the world.

Let us now turn our attention to information related to diversification strategies in the Indian context.

Diversification Strategies in the Indian Context

Diversification strategies evoke keen interest—and heated debates—in strategic management research. The results pouring out from research studies around the world are often controversial and may not offer definite directions regarding different aspects of diversification. For instance, it is not evident whether diversification strategies really do improve financial performance. The issue of whether related diversification is better than unrelated diversification is unclear. It is also debatable whether focusing on core competence is better than diversifying into related or unrelated areas. Lately, the researchers have also been focusing on the country specific environment to debate whether diversification strategies would work in a specific way in a particular context. These ambiguities serve to point out that diversification strategies are not only challenging to formulate and implement but also difficult to understand academically.

The diversification scenario in India has been interesting and challenging in recent times. For long it was believed that the private sector companies were forced to diversify into related and unrelated areas owing to regulatory restrictions such as monopolistic concentration and expansion. A research study of 72 large public and private sector companies in India by a group of researchers at Indian Institute of Management (IIM), Ahmedabad, highlighted the pattern of diversification in the Indian industry during the period 1960–75, had this to say:[12]

- The larger enterprises in the India industry in both the private and public sectors are much diversified. Private sector companies have typically diversified into unrelated areas while public enterprises have diversified into related ones.
- Governmental regulation plays a greater role in diversification strategies than the interplay of market forces.
- Private sector companies have followed diversification strategies in response to the needs of regulatory mechanisms such as industrial policy resolutions, the Industries Development and Regulation (IDR) Act, MRTP Act, Foreign Exchange Regulation Act (FERA), etc. Public enterprises have adopted diversification in response to the public policy of national self-sufficiency and import substitution.

A working paper of IIM, Ahmedabad, on managing diversification in public sector enterprises observed that these organisations diversified into high technology areas in related businesses. Unrelated diversification in public sector was not common.[13] Kaura's study on diversification in Indian industries is in line with findings of the IIM researchers. It concluded that large private organisations, especially MNC subsidiaries, prefer diversification though this tendency may vary across industries. Largely, Indian industries have preferred unrelated diversification.[14]

The tendency of the Indian corporate sector to favour related and unrelated diversification continued right up to the mid-1990s. Post-liberalisation period after 1991 accelerated the trend of business groups to restructure through a combination of acquisition, divestment, and related diversification the overall emphasis being focusing on the core competencies. This trend was challenged and it was proposed that Indian context, as a subset of the context prevalent in developing countries supported diversified conglomerates.

Research studies continue to come up with confounding results. Some interesting findings from the post-2000 period are as follows:

- Two research studies reported that there was no evidence of a statistically significant relationship between diversification and performance in India. (Chibber and Majumdar, 1999 and Sarkar and Sarkar, 2000)[15]
- Another research study observed a curvilinear relationship between group diversification and performance suggesting that there is a threshold limit or point of inflection until which diversification has a negative performance effect. That threshold has to be exceeded for diversification to be beneficial. (Khanna and Palepu, 2000)[16]

- A doctoral research of 37 large Indian companies of textile industrystudied for the decade 1989–99 found that diversified business group companies have performed better than those having a dominant business. Highly diversified group companies had financial performance better than that of low diversified group companies. Related diversified companies have outperformed unrelated diversified companies. Overall, it means that diversification especially the related one, pays in the Indian context. (Jain and Upadhaya, 2003)[17]
- A research study on the theme of who drives unrelated diversification done in 150 Indian manufacturing companies during 1993–94 reports that institutional investors and banks have more influence on unrelated diversification adoption than the chief executive officer (CEO) and company directors. Institutional investors discourage while the banks encourage unrelated diversification. (Ramaswamy, Li and Petitt, 2004)[18]
- An interesting insight is offered by a research study that found that diversification is not the source of generating higher market valuation for business groups in the reform period in India. Propping up through profit transfers among firms within a group and better monitoring through group level directorial interlocks explains the higher market valuation of business group affiliated firms. (Kali and Sarkar, 2005)[19]
- A research study focusing on the economic policy induced changes and the resultant strategic behaviour of Indian firms also commented on the issue of diversification. Unrelated diversification is considered as acceptable at least in the short run but managers need to be selective in making diversification moves. (Ray and Chakrabarti, 2006)[20]
- Paying heed to the preponderance of diversification among business groups, a research study on the evolution and transformation of Indian business groups probed the question as a secondary objective: Why did many business groups in India pursue unrelated diversification in one era, and what made many groups to adopt related diversification and focus on core competencies in the later era? It came up with an explanation based on the concepts of product- and institution-relatedness. In the pre-reform period those business groups that exploited institutional relatedness (amicable relationship with government, for instance) flourished. In the post-reform period those business groups, several of them new ones, are doing well by product-relatedness (focused competence on limited businesses, for instance). (Kedia, Mukherjee, and Lahiri, 2006)[21]
- Confirming the resource-based view of strategy, a study by Mishra and Akbar (2007), suggests that business group affiliation is beneficial in emerging markets though such benefits of group affiliation may not be equally available to business groups that have adopted related diversification and unrelated diversification.[22]

It is widely accepted that the post-1984, and particularly the post-1991, period has seen a gradual liberalisation of the Indian economy. The relaxation of controls has generally made a positive impact on the corporate strategies of firms. Many companies have taken the various advantages arising out of the implementation of liberalisation measures and diversified into related and unrelated areas.

The question whether diversification is an effective strategy has assumed significance in view of the fact that ideas of core competence and focus (what we call here concentration) gained greater acceptability among companies, investors, consultants, and academicians in the developed countries. Diversification, especially unrelated ones, seems to be out of favour. But there is a divergent and interesting view of what strategy could be better for companies in the developing countries such as India. Exhibit 6.4 presents the gist of the 1997 article by Khanna and Palepu that raised quite a storm in academic and professional circles.

Exhibit 6.4 A Positive View on Diversification Strategies for Indian Companies

In the lively debate on focus (or concentration) versus diversification, Tarun Khanna and Krishna Palepu of the Harvard Business School offer an insightful analysis of the reasons why companies in developing countries such as India could benefit from diversification. They are opposed to the idea of core competence and focus that are now quite popular with companies and consultants in developed economies. They feel that a conglomerate organisation in a developing economy, with diversified interest, has better scope for being profitable and competitive.

The central idea of the proposal is based on the hypothesis that the institutional context drives the strategy to be adopted. The institutional context has several dimensions: capital, labour, and product markets; government regulations; and contract enforcement. Typically, in developing economies, the institutional mechanisms are weak. The capital markets are underdeveloped; skilled labour and managerial talent is scarce; there is little scope of dissemination of reliable information about the product to consumers; the level of government regulation is high; and contract enforcement is unpredictable in the absence of effective legal systems.

Conglomerates in developing economies can effectively fill the institutional voids in several ways. They can leverage their reputation to raise external finance and use internally-generated funds for investment in new businesses. Business houses can build up a reservoir of skilled labour and trained managerial personnel for new ventures. The group identity could be used to build brand equity and awareness about businesses and products. The past experience of conglomerates and their rapport with the government can help them in establishing and running several businesses. The credibility of the conglomerates could also be used for effectively building business relationship and assuring honest dealings and honouring contractual commitments. For all these reasons, a diversified business group can be more attractive for foreign investors.

Khanna and Palepu refer to the several conglomerates in developing economies such as India, Indonesia, Malaysia, and South Korea to support their conclusions. Among these, the example of the Tata group of India is prominently quoted to demonstrate how a large business group could be successful and competitive while remaining widely diversified.

Source: Based on T. Khanna and K. Palepu,'Why Focussed Strategies may be Wrong for Emerging Markets,' in *Harvard Business Review,* 75 (July–August, 1997): 41–51.

Exhibit 6.7 on a positive view on diversification strategies for Indian companies offers a strong set of reasons. Yet, the fact is that several Indian business groups have been attempting concentration in line with the thinking on core competence. But this is being done in a unique Indian way of adopting a middle path as we see next.

Ghoshal, echoing a preference for the middle path between excessive diversification and concentration, observed that most Indian business groups are over-diversified being 'decentralised federations—with autonomous businesses, no cross-business integration, and an ineffective corporate engine'. He suggested three tasks: matching autonomy at the business level by the quality of business-level managers; institutionalising horizontal sharing and integration by building up trust and mutual respect among business-level managers; and the top-level corporate managers confronting the inadequacies of their own roles and value added within the group.[23]

Two follow-up articles, related to the diversification versus focus debate, in *The Economic Times,* concluded that Indian companies have been responding in a variety of ways to the environmental changes taking place around them.[24] The responses are in the form of moderate focus thus following a middle path between concentration and diversification apparently trying to reap the benefits of both. RP Goenka (RPG) Group and Lalbhai group have restructured their business portfolio, Mahindra Group and Muthaihs have reorganised their businesses, while the Tata and AV Birla Groups have preferred to remain diversified. Business portfolio restructuring involves choosing a manageable number say, four to six, business areas and concentrating on these. Business reorganisation involves dividing the group into clearly identifiable strategic business units

(SBUs) with independent leadership and transparent authority so that core businesses do not have a diffused identity within the group. The responses of the Tata and AV Birla Groups have been to reinforce group identity, strengthening the role of the head office or corporate headquarters, and increasing cross-company interface.

Diversification strategies, of all the strategic alternatives that we discuss in this text book, are of greater relevance for business groups in the private sector. As we have seen earlier in this chapter, integration strategies are formulated by all types of organisations whether they are in the public, private, cooperative, small-scale or non-governmental sectors. So too are related diversification strategies that are adopted by all types of organisations. Unrelated diversification lies more in the domain of private sector business groups whether they are family-owned or professionally-managed groups.

Research on diversification in India continues to examine the issues of relationship of diversification and performance, ownership pattern and choice of diversification, business group affiliation and diversification and such other issues. There are also industry-specific studies and reporting of corporate case studies of diversification. There are interesting perspectives from multiple perspectives such as choice of strategies and transaction cost economics as well as other theories.[25]

The present scenario has large business groups embarking on rapid expansion through taking advantage of the progressive opening up of the Indian economy. The trend to expand—less by the means of concentration and more through integration or related or unrelated diversification—may continue for quite some time till the thirst for growth,unleashed by reforms, is quenched and the uncorking of the entrepreneurial spirit is moderated by the harsh realities of the business and social environment in India.

Diversification strategies offer high rewards if steps are taken for their proper implementation. We will refer to this issue subsequently in this book when we deal with strategy implementation.

6.5 INTERNATIONALISATION STRATEGIES LO 5

International strategies are a type of expansion strategies that require organisations to market their products or services beyond the domestic or national market. For doing so, an organisation would have to assess the international environment, evaluate its own capabilities, and devise strategies to enter foreign markets. There are several entry options that an organisation can choose from, as we will see shortly, ranging from exporting to setting up wholly-owned subsidiaries. Then the organisation would have to implement the strategies and monitor and control its foreign operations. In this manner, international strategies require a different strategic perspective than strategies that are formulated for, and implemented in, the national context. Let us begin by looking at the larger context in which the international strategies operate.

Context for Internationalisation Strategies

International trade and investment have grown dramatically since the end of World War II. There are several factors that account for this growth. The major factors are the technological developments reducing the transportation costs, improvement in communication technology enabling better contact between trading and investing nations, and the policy-induced trade liberalisation leading to lowering of barriers to international trade and investment. The tariff rates on trade have fallen and restrictions on cross-border investments have eased considerably creating conducive global environment for increase in international trade and investment.

The two trends of lowering of trade and investment barriers between nations and the easing of regulations governing trade and investment have led to intensification of globalisation of production and markets.[26] Globalisation has emerged as a potent force owing to global integration—the intensification of economic linkages among nations—and the internationalisation of markets, trade, finance, technology, labour, communication, transportation, and the economic institutions.[27]

The globalisation of production and markets has a profound impact on the corporate strategies of organisations. Taking advantage of lower tariff barriers and ease of cross-border investing, organisations can disperse production at locations where they can reap economic advantages. Similarly, organisations can market their products and services across borders owing to the ease of transportation and communication.

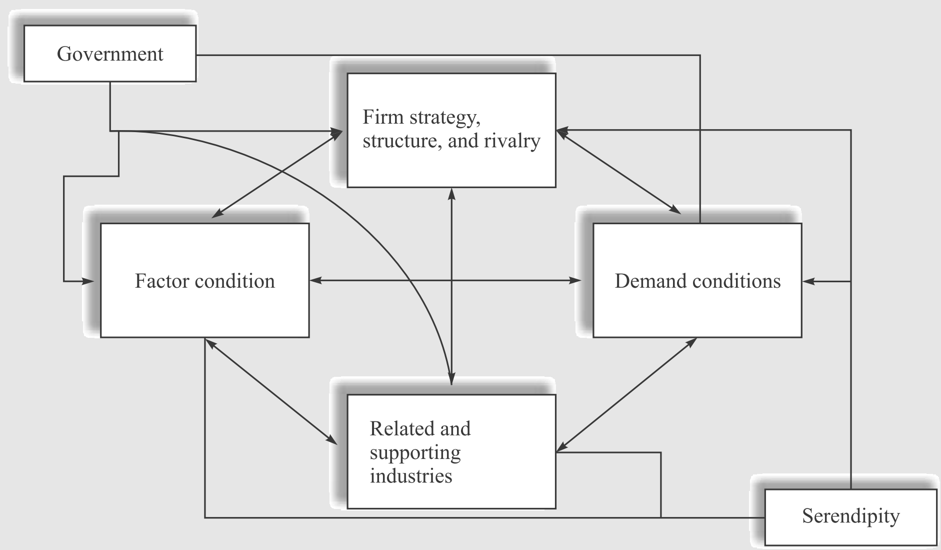
International economic dynamics accompanied by geopolitical changes, over the past several years particularly since the oil crisis of 1973, have changed the paradigms of international business. In the context of a changing international environment, nations need to identify the industries and businesses that their firms need to focus upon to gain a competitive edge. We see next a model that seeks to explain why some nations may possess competitive advantage in particular industries and how firms in that nation endeavour to utilise that industry-based advantage.

Porter's Model of Competitive Advantage of Nations

Porter, in *The Competitive Advantage of Nations*, has extended his idea of the competitive advantage of firms to the analysis of competitive advantage of nations[28] later extended in his 1998 book on competition.[29] In his opinion, four national characteristics create an environment that is conducive to creating globally competitive firms in particular industries. These four national characteristics are also interrelated as shown in Exhibit 6.5in the form of a diagram popularly known as the Porter's diamond. The four factors are called the diamond determinants.

1. *Factor conditions* The special factors or inputs of production such as natural resources, raw materials, labour, etc. that a nation is especially endowed with.
2. *Demand condition* The nature and size of the buyer's needs in the domestic market such as sophisticated and demanding buyers and large markets in the nation.
3. *Related and supporting industries* The existence of related and supporting industries to the ones in which a nation excels such as resourceful local suppliers.
4. *Firm strategy, structure, and rivalry* The conditions in the nation determining how firms are created, organised, and managed, and the nature of domestic competition such as strong rivals.

Exhibit 6.5 The Porter's Diamond of National Competitive Advantage



Source: Adapted from M.E. Porter, 'The Competitive Advantage of Nations,'*Harvard Business Review*, (March-April, 1990): 77.

Based on an analysis of these four set of factors, a country can determine the industry or industry niche in which a cluster of companies that are globally competitive can be developed. But doing so is a task that requires concerted and coordinated action on the part of the national governments and the business firms. Government play a significant role in impacting these four factors. Chance or serendipity may also play a role sometimes that may help to explain why a nation or a geographical area within came to be associated with a fortuitous industrial concentration.

The diamond of competitive advantage can be viewed as instrumental to the creation of localised knowledge clusters, usually restricted to particular industries, which arise from the linkages among specific factor conditions, demand conditions, related and supporting industries, and a particular configuration of firm strategies, structure, and rivalry. The framework of Porter's diamond has in some cases been useful in explaining why internationally successful industries from a particular nation became globally competitive, largely as an outcome of favourable local diamond determinants. This has happened, for instance, in the case of IT industry in India, leather industry in Italy, watch industry in Switzerland, and automobile industry in the US.

Porter defines a cluster as 'a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities'.[30] Here, it is fundamentally the conditions, external to the individual firm, that drive cluster functioning while many forces and actors influence the ultimate success of a cluster. These conditions may include specialised and advanced production factors, sophisticated demand, cooperative linkages with firms in related and supporting industries, and intense domestic rivalry. The idea of clusters helps to explain, for instance, why are there so many factories making leather products at Agra and Kolkata or why safety matches units are concentrated at Kovilpatti and Sivakasi.

The remarkable growth of the Indian IT and pharmaceuticals industries can be partly understood and explained by the help of the Porter's competitive advantage model. The IT industry relied on the technical skills available at lower cost, high demand created by domestic companies through offering software services to foreign firms looking for outsourcing, existence of semiconductor and other supporting industries to manufacture computer hardware, the presence of IT clusters at many cities, and the stiff competition that Indian computer companies experienced all through the 1990s. The Indian pharmaceuticals industry got a tremendous boost all through the 1970s and 1980s through the protectionist policies of the government creating a huge demand for medicines, existence of upstream supplier industries, and competition among a large number of big and small firms in the organised and unorganised sector. Potential in other industries such as organised retailing within India is promising.[31]

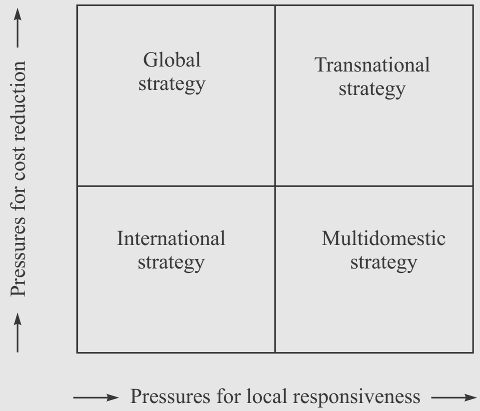
Types of International Strategies

Two sets of factors impinge upon a firm's decision to adopt international strategies:

- *Cost pressures* denote the demand on a firm to minimise its unit costs. By doing so, the firm tries to derive full benefits from economies of scale and location economies. Ideally, the firm seeks a single low-cost location, producing globally standardised products and marketing it widely around the world to achieve economies of scale. Typically, cost pressures are high in industries that make products, having commodity characteristics, such as chemicals, petroleum, or steel. These products serve universal needs. Some category of industrial and consumer products such as personal computers or cameras too have similar characteristics.
- *Pressures for local responsiveness* makes a firm tailor its strategies to respond to national-level differences in terms of variables like customer preferences and tastes, government policies, or business practices. In doing so, the firm customises its products and services to the requirements of the individual country-market it is serving. A whole range of products and services like cars, clothes, food, entertainment, or insurance face pressures for local responsiveness and firms have to tailor them to the requirements of individual country-markets.

Often the pressure for cost reduction and the pressure for local responsiveness act in a contradictory manner: minimising unit costs may not be possible when products and services have to be differentiated across countries.[32] The juxtaposition of these two factors, as shown in Exhibit 6.6, leads to four types of international strategies.

Exhibit 6.6 Four Types of International Strategies



Source: Adapted from C.A. Bartlett and S. Ghoshal, *Managing Across Borders* (Boston, M.A.: Harvard Business School Press, 1989)

According to Bartlett and Ghoshal there are four types of international strategies: international strategy, multidomestic strategy, global strategy, and transnational strategy:[33]

- Firms adopt an *international strategy* when they create value by transferring products and services to foreign markets where these products and services are not available. This is a simple strategy in the sense that an international firm, by maintaining tight control over its overseas operations, offers standardised products and services in different countries with little or no differentiation.
- Firms adopt a *multidomestic strategy* when they try to achieve a high level of local responsiveness by customising their products and services according to the local conditions present in the different countries they operate in. Obviously, this leads to a high-cost structure as functions such as research and development (R&D), production, and marketing may have to be duplicated.
- Firms adopt a *global strategy* when they rely on a low-cost approach based on reaping the benefits of experience-curve effects and location economies and offering standardised products and services across different countries. The global firm tries to intensively focus on a low-cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standardised products and services at a few favourable locations around the world. These products and services are offered in an undifferentiated manner in all countries the global firm operates in usually at competitive prices.
- Firms adopt a *transnational strategy* when they adopt a combined approach of low-cost and high local responsiveness simultaneously for their products and services. Dealing with these two often contradictory objectives is a difficult proposition and calls for a creative approach to managing the production and marketing of products and services.

As you will note, Indian firms would find it challenging to adopt any of the four types of international strategies. For doing so, they would either need to adopt a low-cost approach and/or offer differentiated products and services across different countries. Both these approaches are difficult to adopt in the absence of the capabilities required. It is for this reason that the only world-class industry that India has is of software development. Here a low-cost approach is possible owing to a variety of fortuitous reasons such as low-cost, widely-available expertise in IT, and less government interference. Further, local responsiveness is not necessary in the case of software development due to the technical nature of IT products and services. Following a similar line of thought one could say that the other industries where India could find a niche are the service industries, in general, and knowledge-based industries such as pharmaceuticals and entertainment.

Bartlett and Ghoshal make a strong case for adopting transnational strategy as they opine that this is possibly the only viable strategy in a competitive world. They feel that the flow of expertise should not be a one-way process from the transnational firm situated in a developed country to the developing countries it operates in. Rather, as Bartlett and Ghoshal suggest, a transnational firm should transfer the expertise from its foreign subsidiaries to its headquarters, and from one foreign subsidiary to another foreign subsidiary through a process they term as global learning.

International Entry Modes

When a firm adopts one or more of the international strategies, the question arises about the mode of entry that the firm should adopt. Mode of entry means the manner in which the firm would commence its international operations. There are several entry modes each with their own set of advantages and disadvantages. A firm would have to decide which mode suits its circumstances best before it could be adopted.

Root presents a three-part classification of entry modes under which we could place the different entry modes mentioned by various authors:[34]

1. *Export entry modes* Under these modes, the firm produces in the home country and markets in the overseas markets.
   (a) *Direct exports* do not involve home-country intermediaries and marketing is done either through a direct agent, distributor or through direct branch, subsidiary in the overseas markets.
   (b) *Indirect exports* involving intermediaries in the home country and who are responsible for exporting the firm's products.
2. *Contractual entry modes* These modes are non-equity associations between an international company and a company or any other legal entity in the overseas markets.
   (a) *Licensing* is an arrangement where the international company transfers knowledge, technology, patent, etc. for a limited period of time to an overseas entity in return for some form of payment, usually a royalty.
   (b) *Franchising* involves the right to use a business format usually a brand name in the overseas market in return for the franchiser receiving some form of payment.
   (c) Other forms of contractual arrangements such as *technical agreements* (for technology transfers), *service contracts* (for technical support or expertise provision), *contract manufacturing, production sharing, turnkey operations, build-operate-transfer (BOT) arrangements*, etc.
3. *Investment entry modes* These modes involve ownership of production units in the overseas market based on some form of equity investment or direct foreign investment.
   (a) *Joint venture and strategic alliances* involve cooperative partnership between two or more firms with financial interests as the basis of cooperation. (These entry options will be discussed in more details in chapter 8.)
   (b) *Independent ventures or wholly-owned subsidiaries* are modes in which the parent international company holds 100 per cent equity and is in full control. Such facilities may be created either through a new venture known as a greenfield venture or acquired through takeover strategies.

A firm contemplating entry into international markets has to weigh several factors before choosing one or more types of the entry modes. Normally, exporting and licensing are the easier initial options as these involve a lower level of commitment and hence lower risk. Strategic alliances have proved to be a popular entry mode due to its several advantages such as facilitated entry into foreign markets, sharing the risks and costs of entry or using complementary skills and assets with strategic partners. But for a stronger presence, joint ventures or wholly-owned subsidiaries are required.

Born-global firms Traditional theories in internationalisation strategy explain the process of firm internationalisation as gradual where firms start as exporters and progressively move on the life-cycle trajectory to use strategic alliances and joint ventures and finally to the stage of having wholly-owned subsidiaries. Accelerated internationalisation in recent times has seen firms jumping the queue to adopt a stage further on the life cycle. In this context, the *born-global firms* are 'business organisation that, from or near their founding, seek superior international performance from the application of knowledge-based resources to the sale of outputs in multiple countries.'[35] The born-global firms tend to be smaller firms formed by proactive entrepreneurs. This phenomenon is quite common among Indian expatriates. Typically, the born-global firms offer products and services that involve substantial value added, often due to significant processes or technology breakthroughs. The born-global firm owner adopts a global focus from the outset and embarks on rapid and dedicated internationalization. In recent times, we observe the emergence of such firms that can possibly be explained by ongoing trends such as advances in information and communication technologies, the increasing role of niche markets, and the growth of global networks. All of these help to facilitate the development of mutually beneficial relationships with international partners.

Several foreign firms in India have taken the route of exports followed by strategic alliances and joint ventures. With the liberalisation of government policies, reduction of stringency for foreign investments, and promulgation of the Foreign Exchange Management Act(FEMA) the entry of international firms has increased. The Indian firms have also shed their inhibitions and, for reasons described earlier in this subsection, started moving beyond the national boundaries. The Indian software industry has also seen the emergence of born-global firms owing to a fortuitous juxtaposition of Indian entrepreneurs, expatriates, and venture capitalists. An example is of the non-profit organisation, The Indus Entrepreneurs, founded in 1992, in Silicon Valley by a group of entrepreneurs, corporate executives, and professionals with roots in the Indus region.[36] The Indian diaspora have made a significant contribution to the development of born-global firms. For instance, thousands of Indian IT professionals in the Silicon Valley in the US have formed effective linkages to create IT services companies, several of which are born-global firms.[37]

Strategic Decisions in Internationalisation

There are three strategic decisions related to international entry modes: which international markets to enter, when to enter those markets, and on what scale.[38] We look at each of these strategic decisions:

Which international markets to enter? There are innumerable markets around the world in more than 200 countries. Each of these markets has a different profile in terms of benefits, costs, and risk. Clearly then, a firm contemplating internationalisation has to carefully assess the expected benefits of entering a market, the costs that are liable, and the risks that are likely to be faced. A rational assessment of international market opportunities would call for a systematic analysis of the benefits, costs, and risk of market entry and profiling of countries by assigning them ranking in terms of their attractiveness and long-term profit potential. But such a rational assessment might not really be adopted in practice. Entry into international market may occur as a logical outcome of organic growth of a firm or just by happenstance.

Indian pharmaceuticals industry has made impressive forays into the international markets in different ways. A research study into the phenomenon of internationalisation of the Indian pharmaceuticals industry offers an interesting insight by pointing out that more than 50 large and small Indian companies adopted internationalisation strategies during the decade 1990–2000. The international markets in which these companies entered are situated in the developing countries (55.2 per cent), developed countries (37.5 per cent) and the Central and Eastern European countries (7.3 per cent).[39]

Timing of entry into international markets: Having decided which international markets to enter, the next strategic decision is the timing of entry. By timing of entry is meant whether the international entry is made earlier than other international companies or later than them. There are several first-mover advantages associated with an early entry of registering presence by building brand name, build up demand, sales revenue, and market share, and create entry barriers for other companies. But there are some disadvantages of being a first-mover of facing greater risks, and incurring pioneering costs.

Scale of entry into international markets: The final strategic decision related to international entry is that of the scale of entry. By scale of entry is meant entry on a small scale with little commitment in terms of resources or a large-scale entry with significant commitments. Small-scale entry has the advantages of testing the waters before the final plunge is taken and the possibility of reversal of strategic decision if the entry turns out to be unprofitable. Large-scale entry has the advantages of impacting the local competition significantly in favour of the company and creating a major presence.

Advantages and Disadvantages of Expansion through Internationalisation

International strategies offer an attractive strategic alternative for expansion by firms and carries with it rewards in the form of lower costs, increased sales, and higher profits. There are ample opportunities for economies of scale and learning. Above all, it offers what we could say, a glamorous option for expansion strategies and a promise of above-average returns. Some of the major advantages of international strategies are as follows.

- *Realising economies of scale* By expanding sales volume through international expansion, firms can realise cost economies from economies of scale.
- *Realising economies of scope* Firms develop valuable competencies and skills when they operate in home markets and implement particular business models. When these competencies and skills are stretched by firms to operate in global markets and when they replicate their business models, economies of scope can be realised.
- *Expansion and extension of markets* Economies of scale and scope enable firms to expand their markets from local to global markets. This may result in a two-way beneficial relationship where the expanded markets enable the firms to realise lower costs and attain economies of scale.
- *Realising location economies* In the beginning of this chapter, we mentioned the Porter's model of national competitive advantage. There we saw how some countries are endowed with natural resources that provide them national competitive advantage. This advantage can be utilised by firms to produce at lower cost or to use their low-cost advantage to provide differentiation or do both.
- *Access to resources overseas:* By expanding internationally, firms gain access to resources overseas that they do not get when they operate in domestic markets only. Such resources can be natural, financial, or human resources.

The advantages of internationalisation, however, can only be achieved by assuming a certain number of additional costs—infrastructure costs, but also informational costs barely visible at a superficial level.[40] The latter costs have been most clearly demonstrated in the studies on the choice of organisational structure in the internationalisation process.[41] Such information costs tend to decline substantially with the accumulation of international experience. Many studies have therefore focused on the initial entry choices because they represent a critical learning phase.[42]

Overall, international strategies offer an attractive strategic alternative to firms. Yet, the cost of failures can be great. It is generally recommended that managers should be eager to pursue new international opportunities, but should be wary of over-expanding or overextending their firms, particularly geographically.[43]

The disadvantages of international strategies lie in factors such as:

- *Higher risks* International expansion often entails a higher risk as compared to a situation where a firm only operates domestically. These risks are related to uncertainty in economic and political environments in host countries.
- *Difficulty in managing cultural diversity* International firms face challenges of managing cultural diversity within and outside. Within they have to manage employees who come from different cultural backgrounds. Outside, they serve markets that may be very different culturally from their own domestic markets.
- *High bureaucratic costs* Operating internationally requires extensive coordination between home office and foreign operations and subsidiaries. These result in higher bureaucratic costs of coordination and communication.
- *Higher distribution costs* When a firm operates internationally but manufactures only locally it may experience higher distribution costs. Even when manufacturing facilities are established in the countries where markets for the firm exist, the differences in distribution channels might require higher costs to operate.
- *Trade barriers* Despite liberalisation of trade between countries, substantial trade barriers in the form of tariffs, pricing restrictions, differing standards, or local content requirements exist.

Regionalisation Strategies

Alan Rugman, 2000, presented a powerful thesis in which he proposed that globalisation is a myth.[44] He based his arguments on the identification of the regional triad of Asia, Europe, and North America and demonstrated through economic data that intra-regional trade and sales of MNCs were mainly in their respective regions. In a later paper, Rugman and Verbeke demonstrated that many of the world's largest firms are not global but regionally based, in terms of breadth and depth of market coverage.[45] Regionalisation, rather than globalisation, is the reality according to these authors. Regionalisation can be considered as an expression of semi-globalisation.[46] Semi-globalisation implies that we observe neither extreme geographical fragmentation of the world in national markets nor complete integration across the globe.

Ghemawat makes two significant points about the significance of regionalisation strategies. First, far from becoming submerged by the rising tide of globalisation, geographic, and other regional distinctions may in fact be increasing in importance. Second, regionally focused strategies, used in conjunction with local and global initiatives, can significantly boost a company's performance. He suggests that most successful companies adopt five types of regionalisation strategies that they might do in addition to or instead of globalisation strategies. These five regionalisation strategies are: home base, portfolio, hub,platform, and mandate strategies. For an explanation of these strategies you can refer to Ghemawat, 2005.[47]

The arguments for regionalisation and pointing out the absence or lack of globalisation means that most of the time we might be misled into thinking that most MNCs operate globally. These arguments also negate the widely-held perception that internationalisation is the dominant theme in today's world. It could well be increasing regionalisation that could be the dominant theme rather than globalisation. If this be true, then Indian business firms should simply not be solely concerned with global operations but instead be focussing on regional expansion too. This would mean giving increasing emphasis to the South Asian countries or regions in the vicinity such as China, the Central Asia, Middle East and South-East Asia. Unfortunately, for India, the South Asia Free Trade Agreement (SAFTA), though signed in 2004, is not yet a reality and political problems with India's neighbours and domestic problems within them make it difficult to establish firm economic and business relationship with them. Even bilateral free trade agreements with neighbours Bangladesh or Pakistan are mired in controversies. The problem is not just between India and her neighbours as even Bangladesh and Pakistan do not see eye to eye in matters of business and trade. The experience of North American Free Trade Agreement (NAFTA), the European Union (EU), and other regional trade blocs such as Association of South East Asian Nations (ASEAN), however, demonstrates the positive effects of regionalisation strategies.

The regionalisation strategies of Indian business firms are likely to become more popular in the near future. Already, there are enough indications. China and India have significantly enhanced increased economic relations. Infrastructure sector in India has attracted a lot of ASEAN capital. Malaysia and Singapore have emerged as significant investors in India. Indian companies are also making large investments in China and the ASEAN region. Several Indian businesses currently operate in Sri Lanka like Apollo Hospitals, Bajaj, Godrej, IOC, Jet Airways, Taj Hotel, and Sahara Air. In Bangladesh, the Tata group has a sizeable presence in cars, shoes and bicycles through its joint venture with the NitolNiloy group. Dabur International has a manufacturing joint venture with a Pakistani firm. Another case of South Asian cooperation is Bhutan, where India has played a critical role by investing in hydro electrical projects and buying back the output.[48]

The obvious advantages of regionalisation lie in the geographic proximity, cultural homogeneity, and ease of movement and transportation of goods and people. Besides these, cost savings from regional standardisation, pooling of resources, better understanding of local market conditions, and the presence of complementarities among various aspects of business may also result. Often, the economic and industrial advantages of regionalisation usually spill over into the political arena and the reverse also happens when political understanding leads to greater economic and industrial cooperation among geographically contiguous nations.

Strategies for the Bottom-of-the-Pyramid

The popular phrase 'bottom-of-the-pyramid' was used by the American President, Franklin Roosevelt, in a radio speech to denote the economically weaker sections of the society. In recent times, the term has gained currency owing to the efforts of writers such as C.K. Prahalad who wrote an influential book titled *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*.[49] The bottom-of-the-pyramid (BoP) is the majority of the world's population, estimated to be 3 billion who survive on US$ 2.50 a day.

Essentially, the idea of BoP is addressed to the MNCs that have increasingly found the markets saturating at most places they operate in. The BoP strategy is meant to show the way to MNCs how to exploit the opportunities that are believed to be available in serving the poorer sections of the society. These sections of the society constitute huge markets that have people who have very little income; prefer to buy cheaper products and services or products in lesser quantities; and may not be much concerned with high quality or other differentiating propositions. In India, HUL adopted the 'low price, low margin, high volume' business in selling Wheel brand detergent to low-income buyers. The BoP idea not only is meant to widen the market base for MNCs or local firms but also serve as one of the significant social objectives that firms may pursue so that they can attempt to achieve their economic objectives while simultaneously serving the society through poverty alleviation. However, BoP has had a mixed success record and may not appeal to many MNCs who do not have the patience to penetrate deep into rural markets of developing countries.[50]

The tactics suggested to implement the BoP idea into practice depends on making products and services affordable to poor people. These tactics could be several such as:[51]

- Asking for easy payments in instalments (e.g. increasing sales in rural and semi-urban areas of TVs, cell phones, two-wheelers, or low-cost houses)
- Dramatic cost-cutting (e.g. some products and services in India cost a fraction of what they cost in the US such as medical services)

- Offering products in small packages (e.g. shampoo sachets instead of bottles)
- Charging prices by pay-by-use (e.g. paying a small amount at a cyber café to use computer and access Internet instead of buying a computer and installing an Internet connection)
- Direct distribution by avoiding costly marketing intermediaries (e.g. buying agricultural produce directly from farmers as ITC does through its *e-choupals*.)

While the BoP idea has been primarily addressed to the MNCs, Indian firms, cooperatives and NGOs could also learn to use it to formulate their strategies. In fact, Indian companies could learn profitably from the successful experiences of their compatriot companies such as Amul, Nirma, and others that have the experience of serving the poorer segments of the Indian society as providers of products and services as well as turning the poor into producers themselves. Future Group's no-frills Kishore Biyani (KB)fair price outlets, low-cost, basic consumer banking outside the Dharavi slums in Mumbai by some public sector banks, Matheran's Realty, and Provident Housing and Infrastructure's low-cost, affordable housing project at Mumbai and Bangalore, Talkie Town and E-City Bioscope for low-cost entertainment are all examples of corporate experiments in serving the BoP consumers in India.[52]

The uniquely Indian technique of *jugaad*—frugal form of innovation adopted in conditions of extreme resource constraints has attracted some attention as a way of survival for BoP consumers.[53] The Indian organisations have a distinct advantage over MNCs when they can learn to leverage their experience of using the BoP ideas to other countries having substantial population of poor people. For instance, the micro encapsulation of iodine in salt to preserve iodine in harsh conditions in India has found market opportunities in Africa and other developing markets. The Indian organisations can combine their internationalisation efforts with capitalising on their experience of working with the poorer sections of the society.

Strategies for Indian Companies Competing with Global Companies

With the emergence of a vast domestic market and relatively low-cost workers with advanced technical skills, India is very much on the radar of MNCs. Growingly multinationals are setting up manufacturing operations in India. Ford, Hyundai, and Suzuki all export cars from India in significant numbers. LG, Motorola, and Nokia all either make handsets in India with a sizeable share of production being exported. ASEA Schneider, Honeywell, and Siemens have set up plants to manufacture electrical and electronic products for domestic and export markets.

In contemporary strategic management literature, there has been much emphasis on the strategies that MNCs might adopt with regard to their operations in the emerging market economies. Less attention has been paid to the impact on the local firms in terms of how would they need to respond to the MNCs. This is understandable as most MNCs belong to the developed economies. This sub-section presents a discussion of some major aspects of strategy formulation by local firms in emerging market economies particularly India.

Emerging market economy (EME) is a term coined in 1981 and generally attributed to Antoine W. van Agtmael. It is defined as an economy with low-to-middle per capita income. Such countries constitute approximately 80 per cent of the global population, representing about 20 per cent of the world's economies. China, Indonesia, India, Malaysia, Pakistan, Philippines, Thailand, and Vietnam are considered to be emerging economies in Asia.

When MNCs enter into emerging economies, most local firms assume they can respond in one of only three ways: by calling on the government to reinstate trade barriers or provide some other form of support; by becoming a subordinate partner to a multinational; or by simply selling out and leaving the industry. Das suggests that local firms in India face three strategic choices when faced with the onslaught of MNCs in India: reposition and rejuvenate existing portfolio and operations to combat new competition and grow in the deregulated environment; withdraw from businesses where current competencies are redundant and redirect resources to new opportunities; globalise themselves to exploit opportunities in international markets and defend their domestic competitive position.[54]

Dawar and Frost believe there are other options for companies facing stiff foreign competition. They propose that optimal strategic approaches hinge upon whether a firm's competitive assets are suitable only for the home market or can be transferred abroad and whether industry pressures to move toward global competition are strong or weak. The four strategy options for local companies in emerging markets are shown in Exhibit 6.7. A brief explanation of each strategy option follows:[55]

1. *Using home-field advantages* In situations where the pressures for global competition are weak and a local firm has competitive strengths well suited to the local market, a good strategy option is to concentrate on the advantages enjoyed in the home market, cater to customers who prefer a local touch, and accept the loss of customers attracted to global brands.
2. *Transferring the company's expertise to cross-border markets* Emerging economy markets often have companies that possess strengths and capabilities suitable for competing in other country markets. Under these conditions, launching initiatives to transfer its expertise to cross-border markets becomes a viable strategic option.
3. *Shifting to a new business model or market niche* When pressures to globalise are strong, any of these three sub-options make more sense:
   (a) Shift the business to a piece of the industry value chain where the firm's expertise and resources provide competitive advantage
   (b) Enter into a joint venture with a globally competitive partner
   (c) Sell out to a global entrant into the home market who considers the company would be a good entry vehicle
4. *Contending on a global level* If a local company in an emerging market has transferable resources and capabilities, it can sometimes launch successful initiatives to meet the pressures for globalisation head on and start to compete on a global level itself. Home grown MNCs in emerging economies are not a new phenomenon.

Exhibit 6.7 Strategy Options for Local Companies in Competing Against Global Companies

Industry pressures to globalise	Tailored for home market	Transferable to other countries
High	Dodge rivals by shifting to a new business model or market niche	Contend on a global level
Low	Defend by using home-field advantages	Transfer company expertise to cross-border markets

Resources and competitive capabilities

Source: Adapted form N. Dawar and T. Frost, 'Competing with Giants: Survival Strategies for Local Companies in Emerging Markets,' *Harvard Business Review,* 77, no. 1 (March-April, 1999): 122.

The fourth option leads us to a discussion of the internationalisation of Indian companies and the strategies for Indian MNCs.

Strategies of the Indian MNCs

Conditions within a country can create national competitive advantages. The other side of the coin is that conditions within a country can also place constraints on the potential of the firms to expand. These constraints primarily evolve out of the limited markets available to a firm. It is then that a firm has to look beyond the borders for expansion opportunities. But expansion through internationalisation is certainly not an easy option. There are exacting benchmarks of price, quality, and timely delivery to be achieved. Situations, however, differ from country to country. Internationalisation theories predict that firms internationalise in order to capitalise on their competitive advantages. While this may be largely true for firms in the developed economies, the situation in developing economies like India might be different.

Internationalisation is not a new phenomenon for Indian firms. AV Birla Group and Ranbaxy were early entrants to the internationalisation scene. Yet internationalisation has not taken place to an appreciable extent owing to several reasons. First, for much of the period after independence the business and industry operated in a highly protected environment. The Indian firms were not concerned with size and expansion as protectionism within the country made these considerations redundant. Secondly, the market potential in practically every industry was not realised and firms perceived adequate opportunities within the country. Thirdly, the Indian firms did not possess sufficient resources —particularly financial resources—to venture outside. Fourthly, the government policies did not favour and facilitate internationalisation. Lastly, India as a nation ranks very low on rating of international competitiveness and a country to do business with. The World Economic Forum (WEF) annually rates countries on the basis of their international competitiveness. India has ranked consistently low on almost all factors except for the scientific and technological capabilities of its people.[56]

Despite bottlenecks and hindrances, there are external and internal triggers that have acted in unison to push or pull Indian firms to adopt international strategies.

- The forces of globalisation and internationalisation have impacted the government policies to change and, as a consequence, there is an increasing awareness of the need to adopt international corporate- and business-level strategies.
- The nature and intensity of domestic competition has changed in recent years making several industries highly competitive. Firms in these industries have had to consider the option of international strategies in order to expand.
- Business houses realised the limits of expansion within national markets and the constraints that government policy placed on national-level expansion. These constraints left them little scope for expansion and so they adopted international strategies.
- The corporate governance reforms in India have resulted in greater transparency in company operations resulting in opportunities for networking with global firms in manufacturing and services.
- The presence of extensive diasporas-based networks of Indians around the world has contributed positively to the efforts of firms to internationalise.
- The media hype associated with the emergence of China and India has helped to create a perception of 'India advantage' internationally where the world has come to recognise the ability of India and Indians in the field of information technology and this advantage in terms of a positive perception of India has benefited Indian firms to internationalise. In other words, the 'liability of foreignness' that MNCs face in countries other than that of their origin is getting lesser for Indian firms.
- The unleashing of the entrepreneurial spirit among the Indian industrialists on the positive side and the herd mentality among them on the negative side might have collectively contributed to the increasing adoption of international strategies.

Internationalisation is growing phenomenon now in the Indian industry in general. Several industries like the automobile parts and components, higher education, information technology, motion pictures, pharmaceuticals, etc., are experiencing a high rate of adoption of internationalisation strategies. Aurobindo Pharma, Asian Paints, India Hotels, Gokuldas Exports, Rico Auto, and Zee Telefilms are few of the Indian companies that embarked on internationalisation strategies. Internationalisation is also stimulated by some capabilities that Indian firms have developed along their path of development. These include frugal reengineering of global know-how, trading capabilities for accessing vendors and talent abroad, augmenting process reengineering skills with process management skills, establishing trading networks abroad to access capital and assets, and capability to integrate teams and serve clients across diverse contexts.[58] The top Indian MNCs include manufacturing companies such as Reliance Industries, Tata Group, Hindalco, Infosys, and Wipro and public sector oil major Oil and Natural Gas Corporation (ONGC) along with IT majors Tata Consultancy Services (TCS), Infosys, Wipro, and HCL Technologies.[59]

Global integration and strengthening of the international economic order, primacy of economic considerations over political in international relations, emergence of regional trade blocs, emergence of internet as a communication platform, higher level of cultural diffusion, and the establishment of bilateral and multilateral institutions such as the WTO to regulate and manage trade relations are some of the significant pointers to the likelihood of international strategies becoming a favoured alternative for expansion.

6.6 RETRENCHMENT STRATEGIES

LO 6

Retrenchment strategy is followed when an organisation substantially reduces the scope of its activities. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies.

The first set of factors leading to decline is external to the organisation. Some of the major external factors leading to decline could be emergence of new organisational forms, new dominant technologies, new business models, demand saturation, changing customer needs, and preferences or emergence of substitute products.

The second set of factors leading to decline is internal to the organisation. Almost any significant operational problem that an organisation faces internally could be a cause for decline. Some of the major internal factors leading to decline could be ineffective top management, inappropriate strategies, continual resistance to externally-imposed change, poor quality of functional management, wrong organisation design and inappropriate structure, excess assets and high costs, or ineffective sales and marketing.

The consequences of decline are most often seen in several problems for the organisations. It is important to understand that decline is manifested in several symptoms. These symptoms are most often reflected in the performance criteria of companies such as diminishing profitability, dwindling cash flow, falling sales, shrinking market share, increasing debt, or loss of credibility and goodwill.

An effective monitoring and control system can signal the impending danger and the malaise can be checked by a vigilant management. If the organisation chooses to focus on ways and means to reverse the process of decline, it adopts a *turnaround strategy*. If it cuts off the loss-making units, divisions or SBUs, curtails its product line, or reduces the functions performed, it adopts a *divestment (or divestiture) strategy*. If none of these actions work, then it may choose to abandon the activities totally, resulting in a *liquidation strategy*. We deal with each of these strategies next.

Turnaround Strategies

Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency. This usually takes the form of an operating turnaround strategy.[60] In contrast, a strategic turnaround is a more serious form of external retrenchment and leads to divestment or liquidation. Turnaround strategies derive their name from the action involved, i.e. reversing a negative trend and turning around the organisation to profitability.

Conditions for turnaround strategies There are certain conditions or indicators which point out that a turnaround is needed if the organisation has to survive. Some of major danger signs are:

1. Persistent negative cash flow
2. Negative profits
3. Declining market share
4. Deterioration in physical facilities
5. Over manning, high turnover of employees, and low morale
6. Uncompetitive products or services
7. Mismanagement

An organisation which faces one or more of these problems is often referred to as a 'sick' company.

Types of turnaround actions Research on turnaround strategies identifies six types of effective turnaround actions. Four of these relate to the content of the turnaround and two relate to change process required for implementing turnaround. These usually work in a series of turnaround actions:[61]

1. *Pursuing cost efficiencies* Pursuit of cost efficiencies through improving cash flows is the most prolific of turnaround strategies involving what is commonly referred to as 'belt-tightening' or 'fire-fighting' aiming at a quick recovery until more durable solutions could be found.
2. *Undertaking asset retrenchment* When some assets of the firm are under-performing it has to be determined whether they could be made efficient, replaced at a cost that is justifiable, or they would have to be divested.
3. *Focusing on core activities* Often, asset retrenchment may be a result of, or take place simultaneously with, the firm focusing on its core activities to conserve resources.
4. *Building for the future* Assured of survival, the firm then needs to think of the future and initiate steps to position for long-term growth. This is usually done during the recovery phase of turnaround.
5. *Reinvigorating leadership within organisation* Replacement of the CEO and a part of the top management team is usually done at the start of a turnaround exercise aimed at infusing new vigour in the organisation.
6. *Initiating cultural change* The aftermath of turnaround would expect new set of beliefs and values that require cultural change in the organisation.

Managing turnaround There are three ways in which turnarounds can be handled:[62]

1. The existing chief executive and management team handles the entire turnaround strategy with the advisory support of a specialist external consultant. The use of this method can only be successful if the chief executive has a reasonable amount of creditability left with the banks and financial institutions, and a qualified consultant is available. This type of turnaround management, that is, under the existing team, is rarely attempted.
2. In another situation, the existing team withdraws temporarily and an executive consultant or turnaround specialist is employed to do the job. This person is usually deputed by the banks and financial institutions and, after the job is over, reverts to the original position. This method is also very rarely used in India.
3. The last method—the one most difficult to attempt but that is most often used—involves replacement of the existing team, specially the chief executive, or merging the sick organisation with a healthy one.

Turnaround strategies in the Indian context In the Indian context, turnaround (termed revival and rehabilitation) seems to take on a more legalistic approach rather than one within the control of the organisation. The Companies Act, 2013, Chapter XIX, deals with the details of revival and rehabilitation of sick companies.[63] There are, however, instances where organisational and managerial actions have been used to tackle the challenges of turnaround.[64]

Turnaround in Indian context can be done once an industrial unit is declared sick. Declaration is done under the Sick Industrial Companies (Special Provisions) Act (SICA), 1985. The Board for Industrial and Financial Reconstruction (BIFR) and Appellate Authority for Industrial and Financial Reconstruction (AAIFR) are the agencies created under the Act.[65] Turnaround cases of public sector enterprises are recommended by the Board for Reconstruction of Public Sector Enterprises (BRPSE) which is an advisory agency to the government.[66]

It is the responsibility of the company to report its sickness whenever the accumulated losses at the end of a financial year exceed 50 per cent of the peak net worth attained during the preceding five years. The Board for Industrial and Financial Reconstruction engages in timely detection of sick and potentially sick industrial companies, speedy determination and enforcement of preventive, remedial and other measures with respect to such companies and initiates legal, financial, and managerial measures to turnaround sick companies.[67]

Apart from BIFR, banks and financial institutions also play an active role in turnaround. The Industrial Investment Bank of India (IIBI—previously the Industrial Reconstruction Bank of India) provides financial assistance to sick units. It has an Asset Restructuring and Settlement Department to help banks regarding the revival or sick units. The Reserve Bank of India also coordinates activities between commercial banks and term-lending institutions. The government provides tax benefits under Section 72A of the Income Tax Act to companies which amalgamate sick units for revival.

Another aspect that merits attention in the context of turnaround strategies in India—rather all the types of retrenchment strategies–is the sensitive issue of retrenching labour and employees. The issue is sensitive since typically in the Indian context a 'hire and fire' policy, followed in developed nations, cannot be adopted. There are serious social and political consequences in adopting such a policy. In the course of implementing almost all types of retrenchment strategies, downsizing—decrease in the number of hierarchies of management and reduction of the number of employees and workers—does take place. The macro level formulation for provision of legal framework for retrenching workers is known as the exit policy. It has been recognised that an exit policy is essential as a part of industrial sector reforms. Some tentative steps have been taken in adopting voluntary retirement schemes (colloquially called golden handshake) by public and private sector organisations. The government also established a National Renewal Fund (NRF) to provide for social safety net to redeploy and retrain workers and provide compensation to retrenched workers. Overall, the stance of the government in India towards exit policy remains ambivalent.

Turnaround strategies offer a viable option to strategists when they see an opportunity for a business unit of a company to be revived before going on to divestment.

Divestment Strategies

Divestment (also called divestiture or cutback) strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proven to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer. Harvesting strategies, a variant of the divestment strategies, involve a process of gradually letting a company or business wither away in a carefully controlled and calibrated manner. Spin-off may be done when a business unit is carved out to create an independent or subsidiary business.

Another term common in the Indian context is disinvestment which should not be confused with divestment. Disinvestment is not a corporate strategy in the sense we are using here. It means the sale of equity in public sector enterprises to dilute government shareholding.

Reasons for divestment A divestment strategy may be adopted due to various reasons:

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company so has to be divested. Similarly, a project that proves to be unviable in the long-term is divested.
2. Persistent negative cash flows from a particular business create financial problems for the whole company.
3. Severity of competition and the inability of an organisation to cope with it.
4. Technological upgradation is required if the business is to survive but in cases where it is not possible for the organisation to invest in it, a preferable option would be to divest.
5. Divestment may be done because by selling off a part of business the company may be in a position to survive.
6. A better alternative may be available for investment, causing an organisation to divest a part of its unprofitable business.
7. Divestment by an organisation may be part of a merger plan executed with another organisation, where mutual exchange of unprofitable divisions may take place. The assumption is that such an exchange is in mutual strategic interest.
8. Lastly, an organisation may divest in order not to attract the provisions of the MRTP Act or owing to oversize and the resultant inability to manage a large business.

Approaches to divestment An organisation may choose to divest in two ways. A part of the company is divested by spinning it off as a financially and managerially independent company, with the parent company retaining partial ownership or not. Alternatively, the organisation may sell a unit outright.[68] In the latter case, a 'marketing concept' approach is advisable where a buyer is found who can consider the divested unit (by the selling organisation) to be a 'strategic fit'. In this way, the likelihood of the unit being sold profitably is high. Negotiation skills are an important part of the process of divestment in a sell-off.

Decision to divest The decision to divest is a painful one for the management as it amounts to admitting a failure. This is the reason why many organisations fail to divest even though the strategic alternative is apparent. The CEO who is associated with the project finds it psychologically difficult to renege on a commitment. This is another reason why it is easier for a new CEO to divest a unit to which he is not emotionally connected.

Divestment strategies in the Indian context With increasing pressure to streamline and restructure businesses and emergence of professional management, divestment strategies have become quite popular in the Indian industry. Another reason why divestment is a preferred option is the fact that several family business houses as well as public sector companies in India have always been widely diversified. This made sense when licensing was prevailing and expansion opportunities were severely limited. Companies had no option but to diversify. With wide-ranging portfolio of businesses, companies now face the problem of diffusion of core competencies. This is the reason why several companies in India are employing divestment as a strategy to streamline their business portfolio and emerge as a focussed organisation.

Here are a few examples of how companies have attempted divestment strategies:

- Hindustan Unilever divested its marine foods business to Mumbai-based Temptation Foods. Temptation Foods, which is a fruit and vegetables export company, got direct access to HUL's customers across the world. Hindustan Unilever decided to divest as it wanted to get out of all non-core businesses. The company had already sold its seafood processing plant in Andhra Pradesh and shut down operations in Gujarat.
- Tata group is a highly diversified entity with a range of businesses under its fold. They identified their non-core businesses for divestment. Tata Oil Manufacturing Company (TOMCO) was divested and sold to HUL as soaps and detergents were not considered a core business for Tatas. Similarly, pharmaceu-

ticals companies of Tatas, Merind, and Tata Pharma were divested to Wockhardt. The agro-chemicals company, Rallis, divested its pharmaceutical business to rationalise assets. The cosmetics company, Lakme, was divested and sold to HUL as, besides being a non-core business, was found to be non-competitive and would have required substantial investment to be sustained.

- Larsen & Toubro, engineering and construction company, has its focus on its core businesses of civil engineering and infrastructure. With this in view, it has done a series of divestments over the years through creating independent subsidiaries of its business segments what it calls an 'asset-light strategy'. This also has the aim of raising fresh capital over time. Simultaneously it is expanding into new markets abroad and into new sectors. Divestments are being done in real estate, ports and roads segments.
- Indian Organic Chemicals (IOC) set up in 1960 by the Ghai group diversified into food processing in 1986 from its main business of organic chemicals. But by early 1989, its 'Future' foods division and Convenience Foods, reached a position where they had to be divested. These units were involved in the manufacturing of potato wafers and banana chips, and had become unviable. The reasons for their failure were: unfair competition from the unorganised sector, technological problems, lack of funds, and mismatch between the manufacturing-orientation of the Ghai group with the marketing-orientation required for fast foods.

As is evident from the illustrations mentioned earlier, divestment may sometimes be the result of failures. But they may also be the result of prudent thinking on core competences, continual review of businesses' performance and effective business portfolio management. When divestment is perceived as infeasible or does not work, liquidation may be the strategic alternative to consider.

Liquidation Strategies

Liquidation is the 'last resort' strategy when the organisation cannot be turned around or it cannot be divested as there are no buyers. It is a retrenchment strategy that is considered the most extreme and unattractive is liquidation strategy, which involves closing down an organisation and selling its assets. The aim is to recoup as much money possible before the closure takes place. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where an organisation could pursue any future activities, and the stigma of failure.[69]

Why is liquidation difficult or undesirable? Many small-scale units and proprietorship and partnership ventures liquidate frequently but medium- and large-sized companies rarely liquidate in India owing to a number of reasons. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation. Each party has its own reasons for doing so. While the management may hesitate to liquidate due to fear of failure, the government may not easily allow liquidation due to political and other risks involved. Trade unions would naturally resist the loss of employment of workers. Ceasing operations does not mean that an organisation is freed from its contractual obligations to the creditors and suppliers unless, of course, it is declared insolvent or bankrupt.

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, the organisation cannot expect adequate compensation as most assets, being unusable are considered as scrap. The Ministry of Company Affairs, that oversees the legal process of liquidation, estimates that barely 12.5 per cent of asset value is realised on liquidation that itself takes 15 years to 20 years to complete the proceedings.[70] Besides the practical difficulties in liquidation, there is also a psychological aspect which cannot be overlooked. The prospects of liquidation create a bad impact on the company's (or business group's) reputation. For many executives who are closely associated with liquidated organisations, liquidation may be a traumatic experience. Despite the hesitancy on the part of all concerned with a company that intends to liquidate, and the difficulties in the process of liquidation, sometimes an organisation may be forced to liquidate.

Planned liquidation Liquidation strategy may be unpleasant as a strategic alternative but when a 'dead business is worth more than alive', it is a good proposition. For instance, the real estate owned by an organisation may fetch it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when) an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the organisation and its shareholders through the process of liquidation.

Liquidation strategies in Indian context In India, the legal term for liquidation is 'winding up' as defined under the Companies Act, 2013.[71] Companies can be wound up either voluntarily by the company or its creditorsandcompulsorily by the order of the National Company Law Tribunal (NCLT) (proposed; to replace the existing Company Law Board). It is estimated that nearly 33 per cent of nearly 13.6 lakh registered companies in India are closed, defunct or under liquidation while nearly 5,700 court liquidation cases are pending in courts of which nearly 20 per cent are pending since more than 20 years.[72]

Liquidation strategies are not popular anywhere much less in the Indian context yet there are instances where there is no other alternative but to liquidate the company or one or more of its divisions in order to survive.

Here are some illustrations of liquidation strategies by Indian organisations.

- Alpic Finance, a non-banking finance company, was ordered to be liquidated by the Bombay High Court when it defaulted on its outstanding payments to its investors. The liquidation was ordered on a petition filed by Small Industrial Development Bank of India (SIDBI) which was one of the investors or secured creditors. These investors got the first charge over the liquidated company's assets but the depositors lost money.
- JF Laboratories Ltd. underwent a winding-up process in response to a petition by Kotak Mahindra Bank. This was due to long-term liquidity problems and default on payment of principal and interest. The Bombay High Court appointed an official liquidator to whom all the company records were handed over. The Board of Directors of the company was discharged and all the affairs of the company were to be handled by the official liquidator. JF Labs was established in 1988 as a 100 per cent export oriented unit to manufacture and export amino acids.
- Digital Publishing Solutions Private Ltd. went in for voluntary liquidation. It was previously known as Versaware Technologies India Ltd. and was a 100 per cent subsidiary of Versaware Inc, US. Versaware also had a similar business in Israel. It was among the first companies to get into e-publishing and had managed to raise US$ 40 million from venture funds. That did not prevent it from going into liquidation.
- The cooperative banking sector in the various states of India has faced massive liquidation owing to rampant mismanagement and corruption. More than 100 banks have been ordered to be liquidated under the orders of various high courts in the country or their licenses cancelled by the RBI.
- The liquidation of six public sector units is under process. Hindustan Photo Films Ltd.; Hindustan Machine Tools (HMT) Bearings Ltd.; HMT Watches Ltd.; HMT Chinar Watches Ltd.; Tungabhadra Steel Products Ltd.; and Hindustan Cables Ltd. These six companies have employee strength of 3,603 to whom a one-time settlement voluntary retirement scheme is going to be offered.

With this, we come to the end of our discussion of individual strategic alternatives such as integration and diversification. The next section deals with corporate restructuring where the organisations get to play with several strategic alternatives in an attempt to create a combination that is relevant to their specific requirements.

Overall, we would have to look to the range of strategic alternatives that we have discussed in this chapter. Exhibit 6.8 recapitulates the different strategic alternatives at the corporate-level so that we can view them at a glance.

6.7 CORPORATE RESTRUCTURING

LO 7

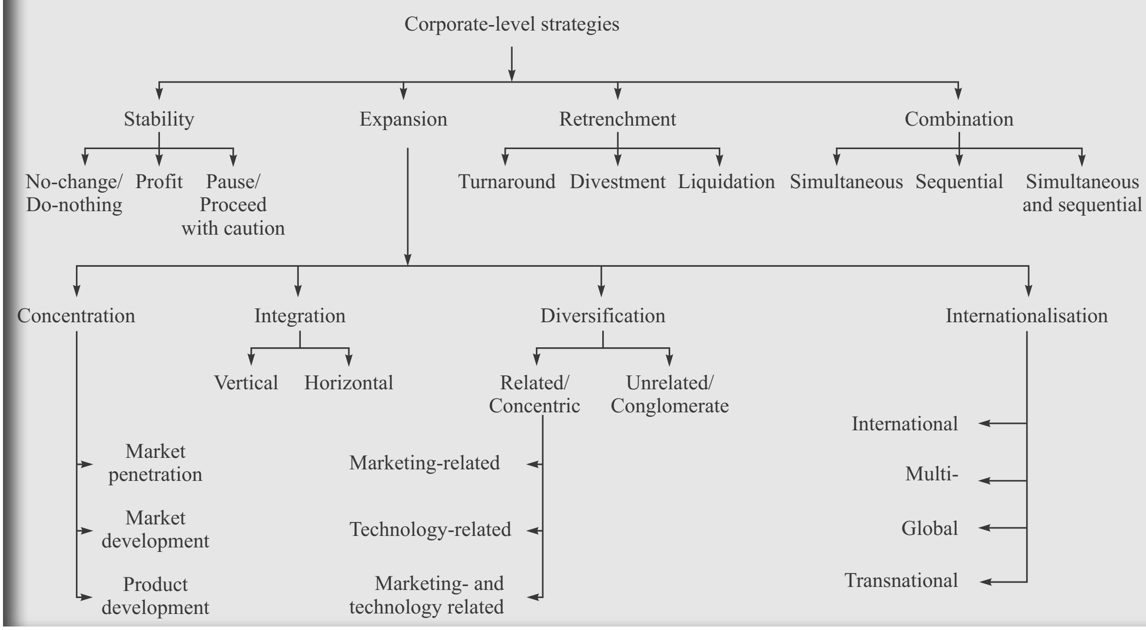
Restructuring is a popular term and is used in several different contexts. The literature in management and allied disciplines also use other terms synonymous with restructuring such as revamping, regrouping, rationalisation, or consolidation. Let us try to understand the various meanings of the term 'restructuring' so that we do not confuse between the different usages of the term.

Different Usages of the Term 'Restructuring'

When referred to at the global or country level, i.e. the macro level, economic restructuring means the reform process used to make structural adjustments in the economy of a country such as reduction or phasing out of subsidies, dismantling of price controls, and such other actions. At the micro level, restructuring has three connotations: corporate- or business-level restructuring, financial restructuring, and organisational restructuring. First, corporate- or business-level restructuring means changes in the composition of an organisation's set of businesses in order to create a more profitable enterprise. Within the organisation, restructuring takes place in two forms. Financial restructuring deals with changes in the equity pattern, equity holdings and cross-holding pattern, debt servicing schedule, and similar such issues. Organisational restructuring may involve several types of managerial actions. These could be: changes in the structure of the organisation, reducing hierarchies or delayering, reducing the number of employees or downsizing, re-designating positions, and altering reporting relationships.

Here, in this section, we are only concerned with corporate- or business-level restructuring, i.e. with the business portfolio changes that organisations undertake in order to either deal with problems being faced by them or to create a more profitable enterprise. Business portfolio changes could lead to the organisation acquiring some businesses and divesting some others. Other types of restructuring such as financial, debt, organisational, process, or any other type may arise out of corporate restructuring and would be more operational rather than strategic in nature.

Exhibit 6.8 The Family Tree of Strategic Alternatives at the Corporate-Level



Rationale for Restructuring

We could try to understand the rationale for restructuring at two levels. One is a deeper level reasoning relating to the fundamental ways in which organisations work. The second is a more practical reasoning that attempts to analyse the changes in the environment and the organisation and relates such changes to strategic actions that organisations need to take.

First, restructuring is needed to change the ways of doing business. In the course of functioning, managers within organisations create mental models about the ways of doing business. Mental models, according to Walsh, 'represent the knowledge managers have about the industry and the organization, and how specific actions relate to desired outcomes'.[73] Peter Drucker states that organisations have implicit or explicit 'theories' for their business, incorporating assumptions about: (a) the environment, specifically markets, customers, and important technologies; (b) the mission or purpose; and (c) core (content) competencies required to fulfil the mission. Drucker further states that these assumptions must be realistic, congruent, communicated, and be understood. These assumptions need to be evaluated regularly and rigorously so that they prove to be correct.[74]

The 'mental models' of Walsh and the 'assumptions' of Drucker are derived from experiences with past successes and failures contributing to the overall picture.[75] As long as these assumptions and mental models do not change they are a useful basis for further managerial decision-making and strategic management. But as soon as changes occur, these turn out to be of little value. Rather these may prove to be harmful if managers insist on sticking to them. Since change is a fact of life, it follows that the assumptions and mental models also need to be revised continually. Restructuring is the result of such a continual revision.

Environmental changes, such as the ones we have been witnessing around the world and in India, are causing the organisations to revise their assumptions and mental models. It is for this reason that restructuring is being done at various levels so that the mental models used to structure organisations and design strategies are aligned with the needs of a changing environment.

The second reason is the need to realign the organisation to changing environmental realities. In the past, diversification had been the preferred route for growth and expansion for companies around the world. In the US, diversification began in the 1960s and lasted until the early 1980s resulting in several over-diversified conglomerates.[76] Contemporary Indian companies, mostly belonging to the family-business groups and multinational subsidiaries, have historically also diversified extensively. This was owing to limitations of expanding in one or a few sectors, imposed by the licensing and regulatory systems.

The international level economic and geopolitical changes led to a spree of economic reforms around the world. The composition and nature of markets also changed causing the organisations to make an intense assessment and reorientation of their assumptions and mental models. It was clear that these would no longer work in the emerging environmental context. What is needed is a new set of assumptions and mental models that are synchronised with the context in which organisations function now. The need to realign their organisations with the environmental realities thus arises. Such realignment is what we refer to as restructuring.

Often such restructuring is done through a combination of expansion strategies such as internationalisation and retrenchment strategies of turnaround or divestment. Over-diversification is sought to be reversed by down-scoping, which involves reducing the scope of diversification by divestment of non-core businesses and creating a focussed organisation.

Restructuring in the Indian Context

Looking at the contemporary Indian context we find most companies have been in the throes of intense change. More often we find the older companies restructuring as these were the ones which diversified excessively in the first case. Newer companies—set up in the 1990s and thereafter—do not find much need for restructuring. But this does not mean that these companies can afford to be complacent. They too need to be on the guard and continually assess the assumptions and mental models they use to devise their organisations and strategies.

A 1994-survey on corporate restructuring carried out by the National Management Forum of the All India Management Association (AIMA) noted that such restructuring had been a continuous process but accelerated after 1991 when the liberalisation process started. The major reason for restructuring was the introduction of new economic policies in India such as removal of industrial licensing and lowering of import duties. The main outcome expected from restructuring was gaining customer focus.[77] That the liberalisation process provided the thrust for corporate restructuring is seen in almost all cases. For instance, an in-depth study on corporate restructuring at Crompton Greaves, though mainly concerned with organisational and process restructuring, points to economic liberalisation as the major catalyst for restructuring.[78]

N. Venkiteswaran, in a research paper on corporate restructuring, pointed that the most visible of the restructuring transactions carried out after 1991 by Indian companies had been at the business portfolio level followed by changes in ownership or shareholding structure. The principal drivers for corporate restructuring have been the policies arising out of economic reforms. The means carried out for restructuring were mergers and acquisitions, diversification in newly-opened sectors of economy such as power and telecom, divestitures, joint ventures and strategic alliances, and demergers. It was noted that the multinational sector was involved in restructuring more energetically and decisively. The net conclusion was that, owing to unfolding market and institutional developments, large, traditional Indian business houses, medium-sized enterprises of recent origin, and the public sector enterprises would be principal participants their major concern being delivering shareholder value.[79]

We also refer to some relevant portions of a study on corporate management practices conducted by the AIMA for *Business Today*. The study covered 160 Indian public and private sector companies in different sectors. The growth strategy most likely to be followed in the domestic market by Indian companies is reported to be inward-looking. While there are some differences in the preferences of companies according to size and the sector to which they belong to market development, i.e. increasing market share in core activities is the most preferred strategy. Overall, mergers and takeovers are the least preferred except for companies belonging to the service and infrastructure sectors. Strategic alliances and joint ventures with long-term partnership are also mentioned as growth strategies preferred.[80]

Exhibit 6.9 Research Studies on Indian Corporate Response to Macroenvironmental Changes in the post-1991 Period

The topic of the corporate response from Indian companies to the macroenvironmental changes in the post-1991 period of reform is quite popular and many studies have been conducted and papers written. This exhibit presents the major findings of some of the representative studies.

One of the earlier studies was an intensive secondary data-based research study by Basant that attempted to identify salient aspects of corporate strategies followed by the Indian corporate sector in the post-reform period. The major findings were:

(a) The Indian corporate sector was vigorously restructuring to retain competitiveness. Restructuring was aimed mostly at consolidation in a few chosen areas. This was being done to correct the imbalances created owing to over-diversification in the past.

(b) Multinational companies used mergers and acquisition to gain market entry or to augment their presence in Indian markets. They were able to use mergers and acquisition route because of their superior financial strength.
(c) Foreign technology transfer, often tied with equity investments, was preferred by the Indian companies to the detriment of local R&D and in-house technology generation.
(d) Manufacturing capability was sought to be improved through external alliances and internal expansion. Quality upgradation is a priority area.
(e) Product differentiation strategy was more preferred over building marketing and distribution assets.
(f) Export-based growth strategies were adopted to some extent.

An empirical research study of 110 large and medium-sized Indian manufacturing organisations, conducted by Ray, reported on the strategic adaptation by these organisations during the first five to six years of economic liberalisation in India. His major findings were:

(a) The more successful organisations achieving superior performance exhibited these characteristics: (i) they were younger, smaller, and moderately diversified with one dominant business; (ii) had higher entrepreneurial capability; (iii) were operating in less competitive environment and had better perception of the environmental changes; and (iv) introduced new product lines in the existing business or diversified into related businesses, expanded geographical reach in India and abroad, and increased resource sharing across SBUs more than others.
(b) The less successful organisations achieving relatively lower performance exhibited these characteristics: (i) they were older, larger, and more diversified; (ii) had low entrepreneurial capability but high growth management capability; (iii) were operating in more competitive environment and did not have adequate awareness of the environmental changes; and (iv) diversified operations, failed to restructure business and product portfolio towards more related businesses, did not expand the present businesses, and failed to expand geographically both within and outside India.

The third research study by Shah based its analysis on responses of CEOs of 125 Indian companies. It identified five broad strategies as being most effective for the Indian markets. These strategies, in order of priority, are:

(a) Good quality and low price
(b) Product innovation
(c) Combination of cost leadership and differentiation
(d) Niche marketing
(e) Superior quality and premium price

A study by Khandwalla examined how liberalisation and globalisation of Indian economy influenced corporate organisations. Based on data from 139 Indian companies, Khandwalla suggested a model that proposed that greater use of policy frameworks representing entrepreneurial, organic, professional, and participatory styles of management and the mechanisms of uncertainty reduction, differentiation and integration tend to enhance corporate performance.

Finally, a study by Ray and Chakrabarti on strategic change of firms in response to liberalisation found that environment was the dominant external factor influencing corporate strategy and performance of firms. Firms having better environment-strategy fit achieved superior performance as well as those that increased their scale of business and diversified into deregulated industries selectively but aggressively. Other notable studies are by Monga (1997), Ray and Dikshit (2000), and a book by Shiva Ramu (1999). These studies recommend governmental policy initiatives to encourage efficiency in institutional and infrastructural arrangements, augmenting manufacturing and R & D capabilities, and increasing exports. To the organisations, these studies suggest reduction of excessive dependence on domestic markets, reviewing diversification moves of the past, optimal utilisation of existing resources, and deriving synergy in operations to achieve superior performance and develop sustainable competitive advantage.

Sources: M. L. Monga,'Corporate Restructuring: The Search for a Fit by Indian Organisations,'*South Asian Journal of Management*,4, no 1 (1997): 27–32; S. Shiva Ramu,*Restructuring and Break ups*(New Delhi: Response Books / Sage Publications, 1999); R. Basant,'Corporate Response to Economic Reforms,' in *Economic and Political Weekly*, (4 March, 2000): 813–22 ; S. Ray, 'Strategic Adaptation During Economic Liberalisation: A study of Indian manufacturing firms,'*Decision*(January-June, 2000): 117–34; and A.M. Shah,'Critical Success Factors and Effective Strategies in the New Environment,'*Vikalpa*(April-June, 2000): 31–41; S. Ray and M.R. Dixit,'Strategic Responses of Firms to Economic Liberalisation: Experiences of Indian Firms,'*Management and Change*, 4, no. 2 (2000): 273–85; P.N. Khandwalla,'Effective Organisational Response by Corporates toIndia's Liberalisation and Globalisation,' *Asia Pacific Journal of Management,* 19 (2002): 423–48; S. Ray,'Strategic Adaptation of Firms During Economic Liberalization: Emerging Issues and a Research Agenda,'*International Journal of Management*, 23, no. 3, (2003): 271–81 and S. Ray and A.K. Chakrabarti,'Strategic Change of Firms in Response to Economic Liberalisation in an Emerging Market Economy,'*International Journal of Strategic Change Management,* 1 no. 1/2 (2006): 20–39.

We present two exhibits in this section. The first exhibit, Exhibit 6.9 reports the key findings of some major research studies on Indian corporate responses to macroenvironmental changes during the post-1991 period. Exhibit 6.10 presents a few prominent illustrations of corporate restructuring by the established business houses and companies in India. The illustrations in Exhibit 6.10point to the likeness in approach to restructuring by Indian companies.

Exhibit 6.10 Corporate Restructuring by Indian Companies

This exhibit provides a sample of illustrations of restructuring exercises undertaken from among scores of companies that are doing so. Note that the companies chosen are established business groups or large, diversified public sector enterprises.

- Tata group's restructuring aimed at creating a system of integrated planning, focus and rationalise companies, ensure synergy between overlapping units and consolidate holdings in group companies. Soon after liberalisation started, the Tata group in 1992 came out with a strategic plan contemplating reducing the number of companies from 107 operating in 25 businesses to less than 30 operating in just 12 businesses. Later, in 1996, it commissioned consultant McKinsey and Company to devise a restructuring plan. Over the years, the restructuring has resulted in divestment of several companies such as Lakme, Tata Iron and Steel Company Ltd. (TISCO's) cement division, and GoodlassNerolac while strengthening some businesses like cement and tea has taken place simultaneously. A DS Prabhudas (DSP) Merrill Lynch report points out three elements in the restructuring strategy of Tata group: changing group ethos across companies, internal restructuring within companies, and product portfolio restructuring by identifying seven core areas and divesting out of the rest. The ongoing emphasis of restructuring is on focusing on knowledge-based businesses.
- Hindustan Unilever (previously Hindustan Levers) devised Project Millennium, a comprehensive transformation plan to restructure and manage change from being a large, diversified conglomerate to become a configuration of empowered virtual companies each build around a single category of products. Later, it adopted the parent company Unilever's power brand strategy under which it restructured its brand portfolio cutting the number of its brands from 110 to 35 around 2005. To focus sharply on its core businesses, it sold off non-core businesses such as chemicals and tea.
- Larsen & Toubro (L & T), a highly diversified company, had devised a Vision - 2005 plan to guide its restructuring. The aim was to focus on its core businesses and delivering greater shareholder value. The company had a minor restructuring earlier in 1993 in which it divested non-core businesses such as shipping and shoe manufacturing. The later restructuring contemplated creating a joint venture for the cement, tractors, and earth moving equipment businesses. The ongoing restructuring plans focus on core businesses in engineering, construction, electrical, and information technology. Divestments are taking place in cement, glass, and milk processing equipment. In the meantime, much controversy was generated by two unsuccessful bids for hostile takeovers by Reliance and the AV Birla group.

- State Bank of India sensed the environmental changes of emerging competition soon after liberalisation. In 1993, it appointed McKinsey and Company to devise a restructuring plan that has been under implementation for more than a decade. The objective of restructuring was to develop an international perspective and become a world class bank. Focussing on the profitable areas led SBI to create banking groups to look after the corporate banking, national (retail and other commercial) banking, international banking, and associate and subsidiary banking. Internally, the focus was on corporate culture of profitability and productivity, technology upgradation, information technology applications for anytime, anywhere banking, and launching bancassurance and securities brokering services.
- Steel Authority of India had long been affected with problems arising mainly out of massive investments made in modernisation programme undertaken during 1992–98 that proved to be untimely as the demand did not match the expectations. While its major revival efforts were in terms of financial and asset restructuring, its corporate restructuring aims at concentrating on its core business of mild carbon steel. This involves adoption of intensification strategies for its four integrated and three speciality steel plants and divestment of non-core subsidiaries like stainless steel and alloy steel or running them as joint ventures. The business strategy focus is on cost leadership.

Sources: Based on 'The Tata Group: Ripe for Restructuring,' *Business Today,* (7–21 January, 1994): 60–63; 'Why Must Larsen & Toubro Refocus Itself?' *Business Today,* (7 July, 1999); 'Lever's Millennium Project,' in *Business Today,* (7–21 August, 1999): 59–71; 'SBI's Wake-up Call': 52–60 and 'In Choppy Waters: SAIL,' *Business India,* (9–22 August, 1999): 77–84; 'The House of Tatas: Restructuring for Excellence,' *Business Today,* (22 March, 2000): 85–95; DSP Merrill Lynch: Restructuring in India-The Tata Group, (17 April, 2002); available at *http://www.tata.com/0_media/news/media/tata.pdf* retrieved 19 June 19, 2007; 'The Great SBI Makeover,' *Business Today,* (4 August, 2002); 'L&T Plans to Exit Joint Venture' *Business Line,* (30 July, 2005); 'New Improved HLL Rides the Bandwagon,' *Economic Times,* (18 February, 2006); and Steel Authority of India's website at *http://www.sail.co.in/*. Retrieved 19 June, 2007.

The conclusions emerging out of the post-1991 studies on corporate restructuring point out clearly that the liberalisation of the Indian economy was the prime catalyst though individual organisations may have followed different path to restructure. Streamlining of business portfolios seems to be major aim of restructuring at private industrial groups such as Tata, HUL, and L & T as observed in Exhibit 6.10. Public sector units such as State Bank of India (SBI) and Steel Authority of India Ltd. (SAIL) are seen to focus more on clearing deadwood and emerging slimmer from restructuring. Later studies on corporate restructuring have dealt with the post-restructuring impact on performance, profitability, and market position. Specific studies on business houses point to a variety of reasons. Nag and Pathak, 2009, who have examined restructuring at three groups Reliance, L&T, and Siemens indicate inefficiency in management, saturation of core competencies, operational problems and family feud as being the reasons for restructuring.[82] The corporate restructuring has led to greater confidence among Indian industrialists to initiate change, venture in new businesses, and internationalise their organisations. In the words of an astute observer, '... corporate restructuringprogramme (in India) had four essential elements: cleaningthe balance sheet, improving competitiveness,focusing on core businesses, and strengtheningmanagement'.[83]

It is not the case that restructuring is the exclusive preserve of corporate organisations in India in the public and private sectors. Government organisations, public utilities, NGOs, and service providers too are subject to restructuring. A typical case of power sector reform is that of the Orissa State Electricity Board (OSEB) now called the Grid Corporation (GRIDCO). Orissa State Electricity Board, like many other state electricity boards in Indian states, had become unmanageable owing to the familiar reasons of inappropriate capital structure, uneconomic tariff, high transmission and distribution losses, ineffective billing and collection systems, overstaffing, and outdated systems. Facing continual losses, it was defaulting on payments to its creditors and suppliers. The Orissa Government enacted the Orissa Electricity Reforms Act, 1996. Subsequently, a restructuring process was undertaken comprising of several actions: unbundling of generation, transmission, and distribution businesses, privatisation of generation and distribution, competitive and transparent bidding processes, independent regulating agency and tariff reforms. Divestment of power generation business, decentralisation of distribution business and private participation in them, and funding options from international funding agencies were the other highlights of this case of power utility restructuring.[84]

Indian corporate organisations are undergoing what one observer terms as 'churning and restructuring'.[85] Once renowned family-business houses such as the Dalmia-Jain, Khaitan, Mafatlal, Modi, Singhania, Somani, Sriram, Thapar, Wadia, and Walchand, have witnessed an unprecedented decline while new entities like Bharti, Dr. Reddy's, Infosys, Vedanta, and Wipro have emerged as forward-looking, internationally-focussed groups. Many of the older corporate organisations like Tatas, Birlas, and Ambanis have sought to reorient their strategies as we have seen in this section. Public sector organisations both at the Centre and State levels have been slow to reform but have had to follow suit or face unprecedented difficulties threatening their growth and survival. Corporate restructuring is an on-going effort at almost all Indian corporate organisations in the present context.

This brings us to the end of our discussion of strategic alternatives. The organisations have to choose from among the several strategic alternatives available to them. While doing so, the organisations have to realise that it is simply not a linear choice of choosing from among a set of strategic alternatives but a non-linear, complex process where the final choice has to take into account so many different factors as we will observe in later chapters.

Summary by Learning Objectives

This chapter dealt comprehensively with a range of corporate-level strategies.

The main points covered in this chapter are as follows.

LO 1 *Explain the basic types of corporate strategies.*

- Corporate-level strategies are basically about the choice of direction that the firm adopts in order to achieve its objectives. They are basically about decisions related to allocating resources among the different businesses of a firm, transferring resources from one set of businesses to others, and managing and nurturing a portfolio of businesses such that overall corporate objectives are achieved.
- Strategic alternatives revolve around the question of whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector. There are four grand strategic alternatives: stability, expansion, retrenchment, and any combination of these three. These strategic alternatives are termed as grand strategies.
- Stability strategy is adopted by an organisation when it attempts at incremental improvement of its functional performance. Expansion strategy is followed when an organisation aims at high growth. Retrenchment strategy is followed when an organisation aims at contraction of its activities. Combination strategy is followed when an organisation adopts a mixture of stability, expansion, and retrenchment either at the same time in its different businesses or at different times in the same business with the aim of improving its performance.
- Organisations do not depend on one strategy alone and evolve a complex network of combination strategies Combination strategies are a mixture of stability, expansion, or retrenchment strategies applied either simultaneously (at the same time in different businesses) or sequentially (at different times in the same business).

LO 2 *Describe how organisations employ concentration strategies.*

- Concentration is a simple, first-level type of expansion strategy. It involves converging resources in one or more of a firm's businesses in terms of their respective customer needs, customer functions, or alternative technologies—either singly or jointly—in such a manner that expansion results. We discussed three types of concentration strategies. *Market penetration* involves selling more products to the same market. *Market development* involves selling same products to new markets. *Product development* involves selling new products to same markets.

LO 3 *Compare and contrast horizontal and vertical integration strategies.*

- Integration means combining activities related to the present activity of a firm. Such a combination may be done on the basis of the value chain. Among the integration strategies we have two types: horizontal and vertical integration. When an organisation takes up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration. When an organisation starts making new products that serve its own needs, vertical integration takes place.
- Vertical integration could be of two types: backward and forward integration. *Backward integration* means retreating to the source of raw materials. *Forward integration* moves the organisation ahead taking it nearer to the ultimate customer.

LO 4 *Demonstrate understanding of related and unrelated diversification strategies.*

- Diversification involves a substantial change in business definition—singly or jointly—in terms of customer functions, customer groups, or alternative technologies of one or more of a firm's businesses.
- When an organisation takes up an activity in such a manner that it is related to the existing business definition of one or more of a firm's businesses either in terms of customer groups, customers functions, or alternative technologies it is concentric or related diversification.
- When an organisation adopts a strategy which requires taking up those activities which are unrelated to the existing business definition of one or more of its businesses either in terms of their respective customer groups, customer functions, or alternative technologies it is unrelated or conglomerate diversification.
- There are several reasons why organisations adopt diversification strategies. All diversification strategies—related or unrelated—carry risk.
- The diversification scenario in India has been interesting and challenging in recent times. The question whether diversification is an effective strategy has assumed significance in view of the fact that ideas of core competence and focus (what we call here concentration) gained greater acceptability. Diversification, specially unrelated ones, seems to be out of favour. Several Indian business groups have been attempting concentration in line with the thinking on core competence. But this is being done in a unique Indian way of adopting a middle path of moderate focus rather than intense concentration.

LO 5 *Discuss the various aspects of internationalisation strategies.*

- International strategies are a type of expansion strategies that require organisations to market their products or services beyond the domestic or national market. The two trends of lowering of trade and investment barriers between nations and the easing of regulations governing trade and investment have led to intensification of globalisation of production and markets. The globalisation of production and markets has a profound impact on the corporate strategies of organisations.
- The analysis of competitive advantage of nations depends on the four national characteristics: *factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry*. Based on an analysis of these four set of factors, a country can determine the industry or industry niche in which a cluster of companies that are globally competitive can be developed.
- Two sets of factors impinge upon a firm's decision to adopt international strategies: cost pressures and pressures for local responsiveness. *Cost pressures* denote the demand on a firm to minimise its unit costs. *Pressures for local responsiveness* makes a firm tailor its strategies to respond to national-level differences in terms of variables like customer preferences and tastes, government policies, or business practices. Often the pressure for cost reduction and the pressure for local responsiveness act in a contradictory manner.
- There are four types of international strategies: international strategy, multidomestic strategy, global strategy, and transnational strategy.
- Firms adopt an *international strategy* when they create value by transferring products and services to foreign markets where these products and

services are not available. They adopt a *multidomestic strategy* when they try to achieve a high level of local responsiveness by matching their products and services offerings to the national conditions operating in the countries they operate in. *Global strategy*is adopted when firms rely on a low-cost approach based on reaping the benefits of experience-curve effects and location economies and offering standardised products and services across different countries. A*transnational strategy*is adopted when they a combined approach of low-cost and high local responsiveness simultaneously for their products and services.

- Mode of entry means the manner in which the firm would commence its international operations. There are several entry modes each with their own set of advantages and disadvantages. We discussed export entry modes, contractual entry modes, and investment entry modes.
- There are three strategic decisions related to international entry modes: which international markets to enter, when to enter those markets, and on what scale.
- The major advantages of internationalisation strategies are: realising economies of scale, realising economies of scope, expansion and extension of markets, realising location economies, and access to resources overseas. The major disadvantages of internationalisation strategies are: higher risks, difficulty in managing cultural diversity, high bureaucratic costs, higher distribution costs, and trade barriers.
- Regionalisation implies that there is neither extreme geographical fragmentation of the world in national markets nor complete integration. We discussed five types of regionalisation strategies: home base, portfolio, hub, platform, and mandate strategies. The advantages of regionalisation lie in the geographic proximity, cultural homogeneity, and ease of movement, and transportation of goods and people.
- The bottom-of-the-pyramid strategy is exploiting the opportunities that are believed to be available in serving the poorer sections of the society and also serving social objectives.
- The four strategy options for local companies in emerging markets are: using home-field advantage, transferring the company's expertise to cross-border markets, shifting to a new business model or market niche, and contending on a global level.
- The motives for internationalisation of Indian firms may be due to constraints of the legal and administrative system and gradual saturation of the domestic potential. India is moving fast towards a position where there is widespread awareness among the corporate sector to be globally competitive. Indian MNC is taking shape.

LO 6 *Explain the types of retrenchment strategies.*

- Retrenchment strategy is followed when an organisation substantially reduces the scope of its activity as a consequence of decline imposed by external causes or brought on by internal causes. Faced with decline, organisations first attempt to find out the problems and then diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies.
- Faced with decline, an organisation has three options. If the organisation chooses to focus on ways and means to reverse the process of decline, it adopts a *turnaround strategy*. If it cuts off the loss-making units, divisions or SBUs, curtails its product line, or reduces the functions performed, it adopts a *divestment (or divestiture) strategy*. If none of these actions work, then it may choose to abandon the activities totally, resulting in a *liquidation strategy*.
- Turnaround strategies derive their name from the action involved, i.e. reversing a negative trend and turning around the organisation to profitability. There are certain conditions or indicators which point out that a turnaround is needed if the organisation has to survive. We discussed three ways in which turnarounds can be handled and two types of approaches: surgical and non-surgical or humane.
- Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proven to be unsuccessful.
- A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down an organisation

and selling its assets. Medium- and large-sized companies rarely liquidate in India owing to a number of reasons.

LO 7 *Discuss the rationale for corporate restructuring and its implementation in Indian context.*

- Corporate restructuring deals with the business portfolio changes that organisations undertake in order to either deal with problems being faced by them or to create a more profitable enterprise. Environmental changes are causing the organisations to revise their assumptions and mental models. It is for this reason that restructuring is being done at various levels so that organisations and the strategies they employ are aligned with the environmental realities.
- Many established Indian companies are restructuring as these were the ones which diversified excessively in the first case. Newer companies, set up in the 1990s and in the new millennium, do not find much need for restructuring. But this does not mean that these companies can afford to be complacent. They too need to be on the guard and continually assess the assumptions and mental models they use to devise their organisations and strategies.

EXERCISE

Short-answer Questions

1. What do corporate strategies deal with? **(LO 1)**
2. What are the four alternative corporate-level strategies? **(LO 1)**
3. Specify the conditions under which each of this corporate-level strategy is adopted: (a) stability (b) expansion (c) retrenchment and (d) combination. **(LO 1)**
4. Provide reasons as to why this corporate-level strategy is adopted: (a) stability (b) expansion (c) retrenchment and (d) combination. **(LO 1)**
5. Explain briefly the three types of concentration strategies. **(LO 2)**
6. Under what conditions are firms motivated to adopt integration strategies? **(LO 3)**
7. How can a firm use horizontal integration to expand in the same industry? **(LO 3)**
8. What is the difference between backward and forward integration? **(LO 3)**
9. Explain each of the following types of concentric or related diversification strategies: (a) marketing- and technology-related (b) technology-related (c) marketing-related. **(LO 4)**
10. Why is concentric or related diversification strategy adopted? **(LO 4)**
11. Why is conglomerate or unrelated diversification strategy adopted? **(LO 4)**
12. What are the factors that help to create the context for internationalisation strategy? **(LO 5)**
13. What is the Porter's diamond of competitive advantage of nations? **(LO 5)**
14. Explain the two factors that help to classify the international strategies. **(LO 5)**
15. What is a born-global firm? **(LO 5)**
16. How do firms decide which international markets to enter? When to enter? **(LO 5)**
17. Can globalisation be a myth? Is regionalisation the reality? **(LO 5)**
18. Can Indian companies have advantages in adopting strategies for the bottom-of-the-pyramid? **(LO 5)**
19. List the conditions that indicate that a turnaround is needed. **(LO 6)**
20. List the reasons for adopting divestment strategies. **(LO 6)**
21. How can divestment strategies help an organisation become more focussed on its core competencies? **(LO 6)**
22. Why is liquidation considered as difficult or undesirable strategy? **(LO 6)**
23. What are the salient legal aspects of liquidation in India? **(LO 6)**
24. Explain clearly the term 'corporate restructuring'. **(LO 7)**
25. Explain briefly the statement: 'Restructuring results from the mismatch between the organisation and its environment'. **(LO 7)**

Assurance of Learning Exercises

1. Identify and explain the different types of strategies under stability, expansion, retrenchment, and combination corporate-level strategies. Quote examples to explain each of these strategies. **(LO 1)**
2. Pick up several business magazines. Locate the corporate reports of different types of companies according to different factors such as industry, size or type. Analyse these reports to identify the types

of corporate-level strategies the companies chosen by you are employing. **(LO 1, LO 6)**

3. Select a high-profile industry such as the IT or entertainment industry. Identify the major competitors and analyse the type of corporate-level strategies being used by these firms. **(LO 1, LO 6)**
4. Identify a business group such as Reliance that has relied extensively on backward integration for expansion. Analyse the reasons why the business group you chose did so and whether it is likely to continue doing so in the foreseeable future. **(LO 1, LO 3)**
5. Discuss the statement: 'Related diversification is an attractive corporate strategy as it offers the best of both the worlds'. **(LO 4)**
6. Do you agree with the statement that adopting unrelated diversification makes an organisation a trader of businesses? Why? **(LO 4)**
7. List a few recent instances of Indian companies that adopted diversification strategies and make observations on: (a) why these companies diversified? (b) the types of diversification used. **(LO 4)**
8. Debate on the issue whether concentration (or focus) or diversification is better for Indian companies at present. **(LO 2, LO 4)**
9. Discuss the reasons why and how the Indian IT or pharmaceuticals industry has grown to be a world-class industry. **(LO 1, LO 5)**
10. Describe the major types of international entry modes firms adopt to enter international markets. **(LO 5)**
11. Which types of regionalisation strategies are adopted by firms? Explain and state your opinion whether Indian companies should adopt regionalisation strategies. **(LO 5)**
12. Suggest the strategies that Indian companies can use to compete with global companies within India. **(LO 5)**
13. Discuss the factors that motivate the Indian firms to internationalise. **(LO 5)**
14. Debate whether the Indian MNC s have or have not emerged. **(LO 5)**
15. The CEO of a textile mill is convinced that his loss-making company can be turned around. Suggest an action plan for turnaround to the CEO. **(LO 6)**
16. Some organisations are forced to adopt liquidation strategies howsoever undesirable it may be to do so. Why is this so? Explain the reasons and the manner of liquidation in the Indian context. **(LO 6)**
17. Discuss the rationale for restructuring by organisations. **(LO 7)**
18. Write a descriptive note on restructuring strategies in the Indian context. **(LO 7)**

Review Case

THE INDIAN RAILWAYS: ON THE RIGHT TRACK?

On 16 April, 1853, a locomotive pulling 14 carriages and 400 people left, what was then Bombay, to a 21-gun salute and shuttled to Thane, 34 km away. The journey took about 75 minutes. The Indian Railways (IR) was born. Some estimates consider the IR as the world's largest commercial enterprise in terms of the number of employees.

Indian Railways is a departmental undertaking of the Government of India. The Central Ministry of Railways oversees the policy making for the IR and is headed by a union minister. There are some ministers of state holding specific responsibilities. The administration of IR is done through the Railway Board headed by a chairman and having six members.

There are 17 railway zones each headed by a general manager who reports to the Railway Board. The zones are divided into divisions under the control of divisional railway managers. There are 44 functional departments including those of engineering, mechanical, electrical, signal and telecommunications, accounts, personnel, and operating, commercial, and safety branches. The IR has five production units for locomotives and coaches each headed by a general manager. At the operational levels there are station superintendents and station masters who control individual railway stations. Apart from the IR, the Ministry also has a number of public sector enterprises under its administrative control. There is an autonomous organisation called Centre for Railway Information System dedicated to developing specialised application software for the railways.

The IR is Asia's largest and the world's second largest rail network under a single management. It is a multi-gauge, multi-traction system covering over 65,500 route kilometres and covers most of the country's vast geographical spread. With a workforce of around 1.3 million, it runs more than 11,000 trains daily serving 85 million passengers. In 2012–13, IR carried 1,015 million tonnes of total freight, the bulk comprising revenue-earning traffic of 1,008.09 million tonnes/. Earnings from passenger traffic were Rs. 313.23 billion and from freight Rs. 834.79 billion yielding surplus of Rs. 82.66 billion. Indian Railways has taken several steps to regionalise by operating train services to neighbouring countries Bangladesh, Nepal, and Pakistan. Autonomous organisations under IR such as Indian Railways Construction Company Ltd. (IRCON) and Rail India Technical and Economic Services (RITES) undertake projects in many countries around the world.

The financial matters of the IR are dealt with through an elaborate system involving the parliament of India down to the accounts departments at the divisional headquarters. The Railway budget is presented every year and passed by both houses of the parliament. The budget is based on the expected traffic and the projected tariff and the funds required for the capital and revenue expenditure. Dividends are paid to the Central government on the capital invested. Indian Railways is subjected to the same audit control as other government ministries and departments.

The IR has evolved into a vertically integrated organisation. Various units are engaged in designing, manufacturing, and maintaining the rolling stock, running institutions such as hospitals, schools, housing estates, and hotels, and catering. It issues licenses to a large number of uniformed porters and authorised hawkers. These are only some of the major activities that the IR performs.

There are many problems facing the IR. Among these the major ones are:

- Cross-subsidisation of passenger and freight tariff
- High energy and fuel costs
- Poor asset management
- High accident rate
- Antiquated communication, safety, and signalling equipment
- Ageing infrastructure including rail tracks and bridges
- High establishment and personnel costs
- Tough competition from low-cost airlines
- Low efficiency
- Bureaucratic management
- Political populism rather than commercial interests guiding decisions

Many areas of the IR are in need of improvement. Several actions have been taken over the years that include:

- Upgrading technology especially the application of IT in ticketing
- Improving the quality of railway services such as safety and sanitation
- Production of better quality locomotives and coaches
- Introduction of fast long-distance trains
- Addition of value-added services such as introducing banking facilities on trains
- Establishment of Rail Tariff Authority

A Status Paper on IR was issued in May, 1998, followed by another in 2002. These status papers underlined issues confronting the IR and possible options. The Status Paper, 1998, for instance, focused on the strategies related to honing the marketing capability for bulk and non-bulk freight and passenger services, reducing operating costs, evolving a financial strategy, bringing about cultural change, and addressed issues of concern in areas such as R&D and IT. Similarly, the Status Paper of 2002 presented several issues and posed several questions related to its functioning.

A report published in 2001 by a government-appointed group chaired by Rakesh Mohan, then deputy governor of RBI, called for radical restructuring of the IR. The main thrust of its recommendations was on shedding the non-core activities such as catering and manufacturing not related to its main activities of passenger and freight transportation and becoming a focussed organisation. It also called for an integrated transport strategy. The various governments have not implemented many of the suggestions made by many earlier committees. The Bibek Debroy committee is now working on how to hasten the reform and resource mobilisation processes at IR.

Freight has been the key revenue earner for IR. The market share of freight traffic had been on the decline over the last few decades, owing to improvements in road infrastructure. To arrest this decline, it became imperative to: enhance customer responsiveness through cargo visibility and information dissemination, reduce operating expenses, and improve asset utilisation. In order to achieve these aims, the IR installed a computerised Freight Operations Information System (FOIS) with the assistance of Computer Maintenance Corporation (CMC) Ltd. There is an ongoing programme to install Wi-Fi at stations.

Overall, the IR have benefited from several managerial initiatives taken over the recent past such as corporatisation of many of its activities and hiving off separate companies to perform functions performed in-house earlier. For example, Indian Railways Catering and Tourism Corporation (IRCTC) took over the non-core activities of catering while RailTel Corporation was formed to create optic fibre network for communications. Corporatisation is expected to increase in future. Another subtle manner of change seems to be the creeping nature of privatisation of non-core services and adoption of modern business methods of marketing and human resource management to improve operational efficiency. These seem to be working though critics say that increase in the general economic activity and overloading of wagons is the cause of short-term performance.

Certain inherent issues have become a part of the IR heritage. Among these are: overdependence on freight business, much of freight business arising from a select few commodities, passenger traffic being concentrated in low-yield suburban traffic, and high density of traffic in certain areas coupled with under-utilised assets, and facilities in others. Fundamental issues of the dilemma whether IR is an organisation in the nature of public utility designed to discharge social obligations or is a commercial organisation for which financial performance and operational efficiency are imperative still remain.[86]

Questions

1. Comment on the steps taken to reduce the extent of vertical integration at the Indian Railways. Suggest a few more measures that could be taken. **(LO 1, LO 3)**
2. Discuss the measures taken for corporate restructuring of the Indian Railways. In your opinion, are these adequate for dealing with the problems faced? Why?**(LO 7)**
3. Propose the basic elements of a corporate restructuring and turnaround for the Indian Railways. **(LO 6, LO 7)**

Notes and References

1. 'Thermax Builds Up Steam' in *Business World* (21 June–4 July, 1989): 84–88; 'On the Boil' in *Business World* (29 March–11 April, 1989): 15; 'Steering Thermax through Rough Times' in *Business World*(22 March, 1998); 'Tightening Trigen' in *Business India*, (20 September–3 October, 1999); and 'Thermax Plans to Jack Up West Asia, South East Asia Presence,' in *Business Standard* (22 July, 2006); Thermax Limited: 33rd. Annual Report 2013–2014 at *http://www.thermaxindia.com/Fileuploader/Files/thermax-33rd-AR-2013-14.pdf*; Company website at *http://www.thermaxindia.com/About-Us.aspx*. Retrieved 4 December, 2014.
2. D. F. Abell, *Defining the Business—The Starting Point of Strategic Planning* (Englewood Cliffs, N.J.: Prentice-Hall, 1980): 17.

3. W.F. Glueck and L.R. Jauch, *Business Policy and Strategic Management*, 4th ed. (New York: McGraw-Hill, 1984): 209.
4. J.D. Hunger and T.L. Wheelen, *Strategic Management* (Reading, Mass.: Addison-Wesley 1999): 143–44.
5. T. Peters and J. Waterman, *In Search of Excellence* (New York: Warner Books, 1982).
6. J.S. Harrison and C.H. St. John, *Strategic Management of Organizations and Stakeholders* (South-Western College Publishing, Cincinnati, Ohio, 1998): 172.
7. 'IDBI-United Western Bank Merger: Advantage, Branch and Rural Roots,' in *Business Line* (17 September, 2006).
8. P. Uvin, P. S. Jain,and D. Brown,'Scaling up NGO Programs in India: Strategies and Debates,' in *Occasional Paper Series,* 16, no. 6 (Boston, MA: Institute for Development Research, 2000).
9. Read interesting comments by textile entrepreneurs and exporters related to the perceived benefits of vertical integration in the textile industry in India at *http://apparelresources.wordpress.com/technology/techtalk/techbytes/vertical-integration/* Retrieved 27 September, 2014.
10. K.R. Harrigan, 'Formulating Vertical Integration Strategies,' in *Academy of Management Review,* 9 (1984): 638–52.
11. This rationale of diversification is discussed in C. W.L. Hill and G.R. Jones, *Strategic Management: An Integrated Approach* (Boston, MA: Houghton Mifflin Company, 2007): 341.
12. S. Chaudhary, K. Kumar, C.K. Prahalad, and S. Vathsala, 'Patterns of Diversification in Larger Indian Enterprises,' in *Vikalpa*, 7, no. 1 (January 1982): 23–39.
13. S. Chaudhariand P.N. Khandwalla, *Management of Diversification in the Public Sector,* Working Paper No. 475 (Ahmedabad: Indian Institute of Management, year not mentioned).
14. M.N. Kaura, 'Diversification: Profile of Indian industries,' *ASCI Journal of Management*, 16, no. 2 (March, 1987): 121–35.
15. P.K. Chhibber and S.K. Majumdar, 'Foreign Ownership and Profitability: Property Rights, Control, and the Performance of Firms in Indian Industry,' *Journal of Law and Economics*, 42 (1999): 209–38; and J. Sarkar and S. Sarkar, 'Large Shareholder Activism in Corporate Governance in Developing Countries: Evidence from India,' *International Review of Finance*, 1, (2000): 161–94.
16. T. Khanna and K. Palepu, 'Is Group Affiliation Profitable in Emerging Markets? An analysis of Diversified Indian Business Groups,' *Journal of Finance,* 55 (2000): 867–92.
17. R. Jain and K.M. Upadhaya, *Evaluation of Diversification Policies and Performance of Selected Textile Companies in India*. Unpublished Ph.D. thesis, Jamia Millia Islamia, 2003.
18. K. Ramaswamy, M. Li,and B.P. Petitt,'Who Drives Unrelated Diversification? A Study of Indian Manufacturing Firms,' in *Asia Pacific Journal of Management,* 21, (2004): 403–23.
19. R. Kali and J. Sarkar: *Diversification, Propping and Monitoring: Business Groups, Firm Performance and the Indian Economic Transition* Working Paper Series No. WP-2005-006, (Mumbai, India: Indira Gandhi Institute of Development, 2005).
20. S. Ray and A.K. Chakrabarti,'Strategic Change of Firms in Response to Economic Liberalisation in an Emerging Market Economy,' in *International Journal of Strategic Change Management*, 1, nos. 1/2 (2006): 20–39.
21. B.L. Kedia, D. Mukherjee, and S. Lahiri,'Indian Business Groups: Evolution and Transformation,' in *Asia Pacific Journal of Management* 23 (2006): 559–77.
22. A. Mishra and M. Akbar, 'Empirical Examination of Diversification Strategies in Business Groups: Evidence from Emerging Markets,' *International Journal of Emerging Markets,* 2, no. 1 (2007): 22–38.
23. S. Ghoshal, 'On diversification: Managing Integrated Diversity,' *The Economic Times (*12 February, 1999).
24. 'Hocus Focus' and 'The New-look Conglomerates,' both articles by S. Sen in *The Economic Times (Corporate Dossier)* (19–25 September, 1997).
25. For more academically inclined readers there is a wealth of information on diversification strategies in the Indian context as studies are reported regularly. See, for instance, S. Purkayastha, 'Diversification Strategy and Firm Performance: Evidence from Indian Manufacturing Firms,' *Global Business Review,* 14, no. 1 (2013): 1–23; R. Ajay and R.Madhumathi,'Diversification Strategy and Its Influence on the Capital Structure Decisions of Manufacturing Firms in India,'*International Journal of Social Science and Humanities,* 2, no. 5 (2012): 421; R. Kali and J. Sarkar, 'Diversification and Tunnelling: Evidence from Indian Business Groups,' *Journal of Comparative Economics,* 39,no. 3 (2011): 349–67;

S. Ghosh, 'Diversification and Firm Value: Evidence from Indian Banks,' *South Asian Journals Of Management,* 18, no. 3 (2011): 7–25; A. S. Gaur and V. Kumar, 'International Diversification, Business Group Affiliation and Firm Performance: Empirical Evidence from India,'*British Journal of Management,* 20, no. 2 (2009): 172–86; S. Sen,'Reliance Telecom: Related or Unrelated Diversification? A Case Study', *South Asian Journal of Management,* 18, no. 2 (2011): 128–40; R. Aggarwal,'Economic Development, Business Strategy, and Corporate Restructuring in India,'*Journal of Indian Business Research,* 1, no. 1 (2009): 14–25.

26. P. Dicken, *Global Shift* (New York: Guildord Press, 1992).
27. G.M. Meier, *The International Environment of Business* (New York: Oxford University Press, 1998): 4–14.
28. M.E. Porter, *The Competitive Advantage of Nations* (London: Macmillan 1990): 71.
29. M.E. Porter, *On Competition* (New York: Free Press 1998).
30. *Ibid.,* p. 199
31. For an application of Porter's diamond to Indian context, see: P. A. Pawar and N. B. Veer, 'Advantage India: A Study of Competitive Position of Organized Retail Industry,' *IOSR Journal of Business and Management,* 10, no. 4 (May–June, 2013): 57–62.
32. C.W.L. Hill and G.R. Jones, *op.cit.*,280.
33. C.A. Bartlett and S. Ghoshal, *Managing Across Borders* (Boston, MA: Harvard Business School Press, 1989).
34. F.R. Root, *Entry Strategies for International Markets* (Lanham, Maryland: Lexington Books, 1987).
35. G.A. Knight and S.T. Cavusgil, 'Innovation, Organizational Capabilities, and the Born-Global Firm,' *Journal of International Business Studies*, 35 (2004): 124–41.
36. Website of TiE, The Indus Entrepreneurs at *http://www.tie.org/Home/AboutTie/* Retrieved on 15 March, 2007.
37. R.D. Hof and M. Kripalani,'India and Silicon Valley: Now the R&D flows both ways,'*Business Week Online,* 8 December, 2003.
38. C.W.L. Hill and G.R. Jones, *op.cit.,* 285.
39. J.P. Pradhan, *Global Competitiveness of Indian Pharmaceuticals Industry: Trends and Strategies* ISID Working Paper 2006/5 (New Delhi: Institute for Studies in Industrial Development, 2006).
40. F.R. Root, *op.cit.*
41. J.K. Johansson and J. E. Vahlne, 'The Internationalisation Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitment,' *Journal of International Business Studies,* 8, no. 1 (1997): 23–32
42. J. W. Lu and P. W. Beamish, 'The Internationalization and Performance of SMEs,' *Strategic Management Journal*, 22 (2001): 565–86.
43. Chin-Chu Hsu and D.J. Boggs, 'Internationalization and Performance: Traditional Measures and their Decomposition,'*Multinational Business Review*, 11, no. 3(2003): 23–49.
44. A.M. Rugman,*The End of Globalization*(London: Random House / New York: Amacom-McGraw-Hill, 2000).
45. A.M. Rugman and A. Verbeke, 'A Perspective on Regional and Global Strategies of Multinational Enterprises,' *Journal of International Business Studies,* 35, no. 1 (2004): 3–18.
46. P. Ghemawat,'Semi-globalization and International Business Strategy,' *Journal of International Business Studies*, 34, no. 2 (2003): 138–52.
47. P. Ghemawat, 'Regional Strategies for Global Leadership,'*Harvard Business Review,* 83, no.12 (2005): 98–112.
48. N. Kumar 'Prosper-thy-neighbour in South Asia,' *Financial Express,* 15 February, 2005.
49. C.K. Prahalad,*The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (New Jersey: Wharton School Publishing, 2004).
50. For critique of the Bottom-of-the-pyramid business model see this blog: *http://hbr.org/2012/06/reality-check-at-the-bottom-of-the-pyramid/ar/1* and *http://blogs.hbr.org/2014/04/why-entrepreneurs-will-beat-multinationals-to-the-bottom-of-the-pyramid*/Both blogs retrieved 28 September, 2014.
51. S.S.A. Aiyar,'Misfortune at Bottom of Pyramid,'*The Economic Times*, 25 October, 2006.
52. T.V. Mahalingam, 'No Frills, No Thrills,'*Business Today* (21September, 2008) at *http://businesstoday.intoday.in/story/no-frills,-all-thrills/1/2942.html*. Retrieved 28 September, 2014.
53. R. Singh, V. Gupta, and A. Mondal,'Jugaad - From 'Making Do' and 'Quick Fix' to an Innovative, Sustainable and Low-Cost Survival Strategy at the Bottom of the Pyramid,' *International Journal of Rural Management,* 8, no. 1–2 (2012): 87–105.
54. R. Das, 'Defending against MNC Offensives: Strategy of the Large Domestic Firm in a Newly Lib-

eralizing Economy,' *Management Decision,* 35, no. 8 (1997): 605–18.

55. N. Dawarand T. Frost, 'Competing with Giants: Survival Strategies for Local Companies in Emerging Markets,'*Harvard Business Review*, 77, no.1 (March–April,1999).
56. See global competitiveness rankings of India at *http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#indexId=GCI&economy =IND*. Retrieved 28 September, 2014.
57. See an informative article with several examples of Indian MNCs by A. Gupta,'Emergence of Indian Multinationals,'*Technology Exports*, 8, no. 3 (September–October. 2006) at *http://www.dsir.gov.in/pubs/te/te200605.pdf*. Retrieved 28 September, 2014.
58. V. Gupta, V and R. Qui, 'The Rise of the Indian Multinational Corporations and the Development of Firm-Specific Capabilities,'*Journal of Business Theory and Practice,* 1, no. 1 (March 2013) available at *www.scholink.org/ojs/index.php/jbtp*. Retrieved 14 October, 2014.
59. 'Top 20 firms Hold $80 billion in Assets Abroad,' The *Hindu* (9 May, 2012). See here: *http://www.thehindu.com/business/top-20-firms-hold-80-billion-in-assets-abroad/article3401351.ece*. Retrieved 6 October, 2014.
60. W. F. Glueck and L.R. Jauch, *op.cit.*, 219.
61. R. Schoenberg and N. Collier, 'Strategies for Business Turnaround and Recovery: A Review and Synthesis,'*European Business Review,* 25, no. 3 (2013): 243–62.
62. G.A. Mirchandani, 'Turning a Business Around,' *Business India*, (7-20 March, 1988): 110-111.
63. See *http://indiacode.nic.in/acts-in-pdf/182013.pdf* for Companies Act, 2013, Chapter XIX (pages 159–65) for details of legal provisions for turnaround strategies. Retrieved 27 September, 2014.
64. For an organisational perspective based on human resource-centered approach to turnaround at Rourkela Steel Plan see: R. Sharma and C.K. Sahoo,'Regenerating Organizational Strength the Employee Centric Way,' *Strategic HR Review,* 12, no. 2 (2013): 61–9.
65. Details about Board of Industrial and Financial Reconstruction are available at: *http://bifr.nic.in/*. Retrieved on 24 September, 2014.
66. Details of the Board for Reconstruction for Public Sector Enterprises (BRPSE) are available at:*http://dpe.nic.in/brpse* For readers interested in turnaround in public sector enterprises read 11 stories published by the BRPSE here: *http://dpe.nic.in/sites/upload_files/dpe/files/FinalCoffeeTableBook_23032012.pdf* Both sites retrieved 25 September, 2014.
67. For details on rehabilitation of sick units by BIFR see *http://business.gov.in/closing_business/bifr.php* Retrieved 25 September, 2014.
68. P. Mehra, 'A Board in the Sick Bay,'*Business Standard*, (10-11 June, 2000): 6.
69. A. A. Thompson Jr. and A.J. Strickland III, *Strategic Management - Concepts and Cases* 3rd ed. (Plano, Texas: Business Publications, 1984): 95.
70. 'Government seeks India Inc. views on independent directors' issue,' *domain-b.com* 3 July 2005 available at *http://www.domain-b.com/news_review/200507july/20050705newsb.html* Retrieved 17 June, 2007.
71. Legal provisions in India related to liquidation are available in the Companies At, 2013 in Chapter XX (Winding up; pages 165–202). See *http://indiacode.nic.in/acts-in-pdf/182013.pdf* Retrieved 27 September, 2014.
72. See these two news items in *The Financial Express* *http://www.financialexpress.com/news/winding-up-defunct-cos-made-easy-under-new-law/1157281* and *http://www.financialexpress.com/news/33-of-registered-firms-in-india-inactive-says-mca/1218549*
73. J.P. Walsh,'Managerial and Organizational Cognition,'*Organization Science,* 6 (1995).
74. P.F. Drucker,'The theory of business,' in *Harvard Business Review* (July–August, 1994).
75. J. S. Harrison and C.H. St. John, *op.cit.*, 272.
76. C.W.L. Hill and G.R. Jones,*Strategic Management Theory* (Boston, MA: Houghton Mifflin, 1998): 298. Also see a very profound historical account of evolution of strategies in American context, by Alfred D. Chandler, Jr., 'Integration and Diversification as Business Strategies-An Historical Analysis,'*Business and Economic History*, Second Series, 19 (1990).
77. National Management Forum: *Corporate Restructuring (A Survey of Indian Experiences)*(New Delhi: All India Management Association, 1995).
78. J. Humphrey, R. Kaplinsky, and P. V. Saraph, *Corporate Restructuring* (New Delhi: Response Books, 1998).
79. N. Venkiteswaran,'Restructuring of Corporate India: The Emerging Scenario,'*Vikalpa,* 22, no. 3 (July–September, 1997): 3–13.
80. 'World Class Management Benchmarks for the Millennium,'*Business Today* (23 February–6 March, 1998): 62–75 and M. R. Gera, ed. *Business Trends in*

India (1997–2000) (New Delhi: All India Management Association- Excel Books 1998): 3–4.

81. See, for instance, R. Aggarwal,'Economic Development, Business Strategy, and Corporate Restructuring in India,' *Journal of Indian Business Research,* 1, no. 1 (2009): 14–25; Y. C. Joshi and F. H. Pandya, 'An Empirical Analysis of Corporate Restructuring and Share Price Performance in India,' *International Journal of Financial Management,*1, no. 3 (2011): 33–48; R. Azhagaiah,'Corporate Restructuring & Firms' Performance: An Empirical Analysis of Selected Firms of Across Corporate Sectors in India,' *Interdisciplinary Journal of Research in Business,* 1, no. 4 (April, 2011): 58–82.
82. G. C. Nag andR. D. Pathak,'Corporate Restructuring: A Boon for Competitive Advantage,' *Advances in Competitiveness Research,* 17, no.1 (2009): 22–41.
83. N. Kumar, 'India Unleashed,' *Business Strategy Review,* 20, no. 1 (2009): 4–15. Originally published in N. Kumar, *India's Global Powerhouses: How They are Taking on the World* (Harvard Business Press, 2009).
84. Planning Commission, Government of India, 'Power Sector Reform in Orissa: A Case Study in Restructuring,' in *State Development Report*, Orissa, 2001 available at *http://planningcommission.nic.in/plans/stateplan/sdr_orissa/sp_sdrorisa.htm* Retrieved 19 June 2007.
85. S.D. Naik,'Decade of Corporate Churning and Change,'*Business Line* (31 July, 2001).
86. *Status Paper on Indian Railways: Issues and Options* Government of India, Ministry of Railways, May 2002 at *http://www.indianrailways.gov.in/status-paper.pdf*. Retrieved 25 November, 2007; 'There's No Such Thing As Free Ride,' *The Economist* (6 December, 2003); Gist of Rakesh Mohan Committee Report on Transport Development Policy at *http://www.pib.nic.in/newsite/backgrounders.aspx?relid=104416*; Website of Indian Railways at *http://www.indianrailways.gov.in/*; *White Paper on Indian Railways 2009* at *http://www.indianrailways.gov.in/railwayboard/uploads/directorate/planning/downloads/Whiteper cent20Paper_Eng_SUBMITTEDper cent20Toper cent20Parliament.pdf*, 'Debroy Panel Asked to Submit First Report in Six Months,'*Business Standard*, 2 October, 2014 at *http://www.business-standard.com/article/economy-policy/debroy-panel-asked-to-submit-first-report-in-6-months-114100101188_1.html*. All other websites retrieved 4 December , 2014.

7
CHAPTER

Business-level Strategies

Learning Objectives

After reading this chapter you should be able to:

LO 1 Describe how corporate-level strategies, business definition, and business model act as the foundations for business strategies

LO 2 Identify how industry structure and positioning of the firm in the industry help to determine the competitive advantage

LO 3 Discuss and give examples of achieving cost leadership, differentiation, and focus generic business strategies, conditions under which each of these are used, and their benefits and risks

LO 4 Explain the two types of tactics used for business strategies: timing and market location

LO 5 Indicate business strategies for four different industry conditions

LO 6 Demonstrate leveraging home country advantages and organisation-specific advantages for international business strategies

Chapter Outline

Preview Case

BUSINESS STRATEGIES OF MARICO GROUP*

Marico Ltd. is a leading professionally managed Indian family group in the fast moving consumer goods (FMCG) industry. It is broadly divided into two businesses: the unified FMCG products for India and international markets, and services. The services business is Marico Kaya Enterprises Ltd. that emerged as a separate entity after demerger in 2013. The unified FMCG business deals with a range of hair care, skin care, health foods, male grooming, and fabric care products. Harish Mariwala is the Chairman of the Marico Group and Saugata Gupta is the managing director and chief executive officer (CEO) of the unified FMCG business. During the financial year 2013–14, Marico achieved revenue of around Rs. 4700 crore equivalent to about US$ 780 million and a net profit of Rs. 485 crore.

The product range of Marico includes hair care (hair oil and hair colour), skin care (body lotions and cosmetics), health foods (edible oil and functional foods), male grooming (deodorants and hair cream), There are several well-known brands owned by Marico among them Parachute, Saffola, Nihar, Mediker, and Revive and international brands like Hair Code, Fiancee, Caivil, and Hercules. More than 90 per cent of the Group's turnover comes from products for which it is either number one or two in the markets.

Manufacturing takes place in its seven plants at different places in India and sourcing is done from sub-contractors. Consumption of Marico's products takes place mainly in the urban and semi-urban areas of India and by expatriates outside India mainly in the West Asia. Marico has adopted a strategy of acquiring brands as well as inorganic growth through acquisition of factories to manufacture their products in India and abroad.

The macro level factors helping Marico are growing consumption owing to increasing population, rising literacy levels, emergence of aspiring society, rise in per capita disposable incomes, and urbanisation. The industry level factors supporting growth of Marico are intense competition between organised and unorganised segments, wide availability of raw materials in India, and rising health consciousness among urban consumers.

Marico's strengths lie in factors such as a well-established distribution network and low operational and sourcing costs. Though it cannot match the reach and depth of a company like Hindustan Unilever (HUL), Marico has distributors for urban areas and stockists for rural areas. Marico attempts to leverage the national competitive advantage to operate in South Asian Association for Regional Cooperation (SAARC) countries under its regionalisation strategies and in West Asia and Africa under its internationalisation strategies. Franchising and acquisitions are the main drivers of its regional and international expansion.

Marico consciously tries to avoid head-on competition with the formidable multinational companies (MNCs) such as HUL by differentiating on the basis of unique ethnic Indian products and services. Its business model is based on focused growth across all its brands and territories driven by offering better value propositions to consumers, market expansion, and widening of the distribution network. It lays emphasis on sales volume and growth rather than sales value thus adopting a long-term perspective.

The domestic FMCG sector has some of the well-known brands in India such as Parachute and Saffola. In the initial years, Parachute hair oil relied on converting users of loose hair oil sold in Indian consumer markets and perceived as low quality with the risk of being adulterated to users of packaged and branded hair oil. Saffola operated on the health platform with claimed benefit for a healthy heart. Both brands rely on the differentiation platforms of branded, quality, and reliable products with moderately high prices.

Its international FMCG sector has a subsidiary in Bangladesh, an acquisition in Egypt, franchisees in, and exports to, the West Asian and African countries such as Oman, Saudi Arabia, and UAE that have a substantial Indian expatriate population. Sales have also been initiated in other countries such as the US and Malaysia. Products are sold with minor customisation to suit local conditions and customer preferences in the different international markets that Marico operates in.

As an FMCG company, Marico needs to keep a continual supply line of improved and new products in its various businesses. Sales and revenues have been decelerating in its main market segments. Faced with sluggishness in its core businesses of hair oils and cooking oil, it looks for new product categories. It aims at expanding in its existing markets, increase share in international markets, introduce new products especially for the young consumers and health conscious customers, expand geographically into South East Asia and sub-Saharan Africa, and continue adopting inorganic growth.[1]

Competition is a pervasive term in the business world. Organisations compete for market share, market space, and customers and customers' attention and money. Organisations also compete for resources from the external environment, advantages from using technology, and hiring the best people available in the recruitment market. Competition is in full play in an industry such as the FMCG industry as we observed in the Marico preview case at the beginning of this chapter. In fact, many developing economies—where typically public sector monopolies and oligopolies dominate production—are introduced to competition as things hot up in the FMCG industry. Marico is seen as a dynamic company formulating business strategies to protect and enhance its market share against formidable competitors many of them powerful MNCs. Strategies designed to make an organisation competitive and stay that way through sustained competitive advantage is the subject matter of this chapter.

7.1 THE FOUNDATIONS OF BUSINESS-LEVEL STRATEGIES **LO 1**

Just like a human being functions through his limbs, corporations or companies operate through their businesses. While strategies at the corporate-level provide the broad direction to the organisation it is '...at the level of the individual business or industry where most competitive interaction occurs and where competitive advantage is ultimately won or lost.'[2] Business-level strategies, therefore, are an important level at which companies set their strategies.

We will ask you to recall three points from earlier chapters as we start this one. First, in Section 1.2, we discussed the different levels at which strategy operates. Below the corporate-level strategies are the business strategies. Corporate-level strategies lay down the framework in which business strategies operate. For instance, it is at the corporate-level that an organisation decides whether to stabilise, expand, or retrench. These strategies are then applied at the business level. Individual businesses need their own strategies in order to contribute to the achievement of the overall corporate objectives.

Second, call to your mind Section 6.1, that explains that corporate-level strategies are basically about the decisions related to allocating resources among the different businesses of an organisation, transferring resources from one set of businesses to others, and managing and nurturing a portfolio of businesses such that overall corporate objectives are achieved. The function of corporate-level strategy is, therefore, to deal with a portfolio of businesses in such a manner that the overall returns are optimised. This may, for instance, involve shifting resources from a cash-rich business to another business which has good growth potential but has yet to create a surplus. You can see from this example how corporate-level strategies can guide the individual businesses towards growth by drawing out value from each one of them.

Lastly, recollect that in Section 2.4, we referred to Abell's concept of business definition with which you are now familiar. Each business in a company can be defined along three dimensions of customer needs, customer groups, and alternative technologies. Business definition is at the core of business strategies. By defining the 'what, who, and how' related to a business, the business definition seeks to provide the direction in which action has to be taken.

The business definition lays down the framework within which businesses can operate. The business definition also provides the direction in which businesses can expand or retrench. For instance, a business satisfying a set of needs can expand to provide products and services that will satisfy other complementary needs. Or a business serving a group of customers can expand to serve other customer groups as well. The use of alternative technologies or skills can be expanded to include other means of satisfying customer needs. Business definition thus imparts meaning to the activities that a business performs.

As with business definition, the idea of business model is also relevant to business strategies. In Section 2.5, we adopted the definition of business model as 'a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network.'[3] In fact, a business model is the manager's conception—a gestalt or mental model—of how the set of strategies their company pursues should mesh together into a congruent whole enabling it gain competitive advantage.[4] The business model of a typical retail hypermarket—many of them have taken shape in India—operates on the business model of trying to replace full-service with self-service, wide product selection, bulk buying, information technology (IT)-enabled logistics, procurement, and inventory control. So also is the case with low-cost carriers that operate on a no-frills airlines service business model. The business models are thus determined by the business strategies, which in these cases are of low-cost, and help in creating a unified structure of actions in various areas of business internally.

As discussed in this section, corporate-level strategies, business definition, and business model act as the foundations for business strategies. Corporate-level strategies deal with a range of products and services offered by a company operating in different industries and markets in which it competes. Business strategies aim to develop competitive advantage in the individual businesses that a company has in its portfolio. At the corporate-level, the purpose is to transfer resources and skills, share activities, and create synergies between the different businesses creating value for the organisation. At the business level the aim is to use these resources, skills, and synergies to enhance its competitive advantage. As we will see in later chapters, business strategies are supported by functional strategies and operational implementation in each business. But first, let us concentrate here on business strategies.

7.2 BUSINESS-LEVEL STRATEGIES

LO 2

Business strategies are the courses of action adopted by an organisation for each of its businesses separately to serve identified customer groups and provide value to the customer by satisfaction of their needs. In the process the organisation 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 skilful use of its core competencies. We discussed this in Section 5.1 and there we saw how a combination of organisational behaviour and resources ultimately leads to the development of capabilities that an organisation uses to build competencies. These competencies are used to gain 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. His writings in the form of books, research papers, and articles have deeply influenced contemporary thinking in the area of industry analysis, competitive dynamics, and competitive strategies.[5] He is also considered a major proponent of the positioning school of strategy thought.[6] We will adopt the approach suggested by him in order to discuss the different aspects related to business strategies in this chapter.

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 organisations 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, industry structure 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*. We will go into the details of structural analysis of industries in a later chapter. Suffice it to say here that these five forces vary from industry to industry, i.e. every industry has a unique structure and these factors determine the long-term profitability of organisations in an industry.

Positioning of a Firm in Industry

The second factor that determines the choice of a competitive strategy of a firm is its positioning within the industry. Porter considers positioning as the overall approach of the firm 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, in turn, can arise due to two factors: lower cost and differentiation. Competitive scope can be in terms of two factors: broad target and narrow target.

Competitive advantage In order to understand competitive positioning, we could visualise a situation in which a firm has to compete in a market with other rival firms. One type of positioning approach may be of offering mass-produced products distributed through mass-marketing thereby resulting in lower cost per unit. The other type of positioning approach could be marketing relatively higher-priced products of limited variety but intensely focussed on identified customer groups who are willing to pay the higher price. These are produced through batch production and marketed through specialised distribution channels. What the firm does is to offer its products or services,differentiating them from their rivals on some tangible basis, so that the customer purchases the products even at a premium.

What these approaches show is that there is an overall approach to competing within an industry adopted consciously by an organisation. These approaches are termed as the two generic types of competitive advantages that an organisation could plan for: the lower-cost approach and the differentiation approach. According to Porter, lower-cost is based on the competence of an organisation to design, produce, and market a comparable product more efficiently than its competitors. Differentiation is the competence of the firm to provide unique and superior value to the buyer in terms of product quality, special features, or after-sale service.

Competitive scope Apart from the competitive advantage, the other factor is the competitive scope which Porter defines as the breadth of an organisation's target within its industry. By breadth of an organisation's target is meant the range of products, distribution channels, types of buyers, the geographic areas served, and the array of related industries in which the firm would also compete. The basic reason why competitive scope is important is that industries are segmented, have differing needs, and require different set of competencies and strategies to satisfy the needs of customers.

In order to understand competitive scope, one could visualise an organisation competing in a market with other rival firms. Here the firm can choose a range of products to offer, the customers groups to cater to, the distribution channels to employ, and the geographical areas to serve. Depending on the scale of an organisation's operations, we could say that the firm can either adopt a broad target approach or a narrow target approach. Under broad targeting, the firm can offer a full range of products/services to a wide range of customer groups located in widely-scattered geographical area. Under narrow targeting, the firm can choose to offer a limited range of products/services to a few customer groups in a restricted geographical area.

Exhibit 7.1 provides an illustration of a premier Indian car company showing how the company tries to follow a combination of lower-cost and differentiation business strategies and the manner in which competitive advantage is sought to be developed.

Exhibit 7.1 Competitive Advantage of Maruti Suzuki India Limited

Maruti Suzuki India Ltd. (MSIL), subsidiary of Suzuki Motor Corporation of Japan, is India's largest car maker for a market that is the sixth largest in the world.It has a wide range of products catering to the mobility need of the passenger cars and utility vehicles customers ranging from the no-frills, entry-level competitively-priced cars to premium ones under 14 brands with 150 variants. Despite maintaining its market leader status, MSIL faces tough competition from local as well as foreign carmakers and its market share has seen a decline in a market that hasnot been very promising in recent years.

Customer groups in the Indian automobile industry are segmented on the basis of price. Technology for car manufacturing is fairly standardised and MSIL sources it from Suzuki, its Japanese parent company. In recent years, Indian car manufacturers have had to undertake major technological upgradation to conform to the international emission norms codified as the Euro I and Euro II norms and the absorption of multipoint fuel injection(MPFI) technology. India is harmonising its emission norms for four wheelers with the European regulation and has adopted Euro III. Technical segmentation of car market is done on the basis of length of the vehicle and body shape.

The value chain in car manufacturing start with the inbound logistics of steel coils as input moving through the processes of blanking, pressing, welding, assembly, and vehicle inspection. Material costs make up the bulk of production costs. The value system of MSIL includes the ancillary units, vendors, and suppliers—mostly based in proximity to its manufacturing facilities at Gurgaon and Manesar, Haryana—from whom its sources the components and parts. It also includes the after-sale service providers who are dealers having service stations. Maruti Suzuki India Ltd. has an extensive distribution channel consisting of channel partners who own and manage their sales outlets across a large number of Indian cities. The service network coverage is quite extensive and supported by authorised service outlets.

Maruti Suzuki India Ltd. has positioned itself as a provider of security, confidence, reassurance, value-for-money, and good resale value. Analysts see MSIL as a carmaker that understands the Indian customer better than its rivals. The customer benefits expected are of fuel efficiency, low maintenance costs, and easy availability of genuine parts. The business strategies of MSIL are a combination of lower cost and differentiation for different types of products.

The lower-cost strategy is followed by the usage of a reliable network of suppliers, efficient manufacturing, just-in-time inventory systems, extensive after-sale service support, realisation of economies of scale, and stringent waste management and control. The competitive advantages for cost leadership flow from factors such as economic size of operations, low initial investment, high level of indigenisation, fully depreciated manufacturing plants, and high labour productivity.

The differentiation strategy is put into action by providing options to a customer of offering a car at anominal price point difference. This means that a car with a marginal price difference would be available to a customer looking for upgrading.

Source: Based on M. Venkateshand R. Povaiah,'Total Control,' in *A & M* (31 May, 2000): 32–38; S. Talatam, Maruti Udyog Ltd.: 'Competing with Cost Advantage,' *Spark Online Refereed Journal* (October 2002) available at http://www.indiabschools.com/strategy_001.htm Retrieved 19 June, 2007; and Company website at http://www.marutisuzuki.com; Industry statistics available from http://118.67.250.203//scripts/IndustryStatistics.aspx. Retrieved 30 September, 2014.

When the two factors of positioning—the competitive advantage and competitive scope—are combined a set of generic competitive strategies results. These are what are known as the business-level strategies.

7.3 GENERIC BUSINESS STRATEGIES **LO 3**

In the preceding section, we saw how business strategy is dependent on the industry structure and the positioning of the firm in the industry. Industry structure is dependent on the five forces operating in the marketplace. Positioning is based on competitive advantage and the competitive scope.

Competitive advantage is derived from two approaches of lower cost and differentiation. Competitive scope could be a broad target or a narrow target. When competitive advantage and competitive scope are juxtaposed a matrix of the type is shown in Exhibit 7.2 results. Porter uses this matrix to suggest that there could be basically three types of competitive (or business) strategies.

Exhibit 7.2 Porter's Generic Business Strategies

Competitive scope (Where to compete)		Competitive advantage (How to compete): Low-cost products/services	Competitive advantage (How to compete): Differentiated products/services
	Broad target market	Overall cost leadership	Broad differentiation
	Narrow target market	Focussed cost leadership	Focussed differentiation

Source: Adapted from M.E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985): 12.

Relying on the typology suggested by Porter, we could classify business strategies into the following three types:

1. Cost leadership (lower cost/broad target market)
2. Differentiation (differentiation/broad target market)
3. Focus (lower cost or differentiation/narrow target market)

A discussion of these three types of business strategies follows. We first attempt to understand what these strategies mean and how can these be put into action. Then we note the conditions under which these strategies work the best. Finally, we see the benefits and risks associated with each of these business strategies.

Cost Leadership Business Strategy

When the competitive advantage of an organisation lies in lower cost of products or services relative to what the competitors have to offer, it is termed as cost leadership. The organisation outperforms its competitors by offering products or services at a lower price than they can since it produces them at lower costs. Customers prefer a lower price product particularly if it offers the same utility to them as comparable products available in the market have to offer. When all organisations offer products at comparable price, the cost leader organisation earns higher profit owing to low cost of its products. Cost leadership offers a margin of flexibility to the organisation to lower price if the competition becomes stiff and yet earn more or less the same level of profit.

Observe how these organisations use cost leadership business strategies:

- Gujarat Cooperative Milk Marketing Federation (GCMMF), the country's largest cooperative probably known better by its brand name Amul, operates in the branded ice cream market on the lower-cost platform. It has the backing of a large cooperative dairy network whose constituents are located across the country and an efficient supply-chain in place for procurement of high-quality milk. Besides these, it has developed a cold chain of supplying its refrigerated products through an efficient distribution network consisting of Amul preferred outlets, Amul parlour franchisees, Amul Railway parlours, Amul kiosks, and Cafe Amul. In this way, Amul ice-cream can be found just about everywhere including STD booths, *kirana* shops, chemists and bakers who stock the ice-cream in deep freezers.
- Tata Steel consistently benchmarks itself against global standards in terms of cost competitiveness. Its strategy is based on breaking up the steel value chain into primary steel making and finishing. The company strives to utilise its resource advantage in captive iron ore mines within India and then finishing steel close to the points of consumption anywhere in the world thus saving on transportation costs that are substantial for an item such as steel. Its acquisitions under its internationalisation strategy are also aimed at creating economies of scale in this capital- and labour-intensive industry.
- In the burgeoning mobile telecommunications markets in India, handsets are a significant competitive sector where several companies vie to offer low-cost mobile phones. Reliance Communications (RComm) was the first mover in 2003 to offer ultra-low cost mobile phones at a price point of Rs. 501. In 2007, it started selling Classic Colour handsets at Rs 1,234. Its Classic monochrome range of handsets at Rs. 777 was quite successful as the company claims to have sold 10 lakh sets within a week of its launch. These phones are manufactured for the company by several suppliers and meant to serve as entry-level handsets in semi-urban and rural areas operating on the code division multiple access (CDMA) platform.

What each of these organisations does is to rely on its inherent strengths to lower the cost of its product and emerge as a lower-cost producer,vis à vis, other rivals in the industry. The lower-cost capability is then leveraged to achieve competitive advantage.

Achieving cost leadership Central to the objective of achieving cost leadership is the understanding of the value chain for a product/service of an organisation. 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 costs across the value chain is lower than that of competitors. For doing this it is essential to analyse the cost drivers and then identify the areas for optimisation of costs.

Several actions could be taken for achieving cost leadership. An illustrative list of such actions is as follows:

1. Accurate demand forecasting and high capacity utilisation is essential to realise cost advantages.
2. Attaining economies of scale leads to lower per unit cost of product/service.
3. High level of standardisation of products and offering uniform service packages using mass production techniques yields lower per unit costs.
4. Aiming at the average customer makes it possible to offer a generalised set of utility in a product/service to cover greater number of customers.
5. Investments in cost-saving technologies can help an organisation squeeze every extra paisa out of the cost making the product/service competitive in the market.
6. Withholding differentiation till it becomes absolutely necessary is another way to realise cost-based competitiveness.

Read Exhibit 7.3 to appreciate how a non-government organization (NGO) implements its low-cost strategy to realise better results.

Exhibit 7.3 Implementing Low-Cost Strategies at an NGO

The Pratham Mumbai Education Initiative, led by Dr. Madhav Chavan, set up in 1994, is an NGO serving the mission of ensuring that 'to improve the quality of education in India, ensure that all children not only attend but also thrive in school' to attain the vision of universalising primary education.

Its business definition comprises :

- *Customer groups* who are poor children living in urban and semi-urban slums of India
- *Customer need* is of providing low-cost and effective pre-school education
- *Technology* is of 'capital-light' preschool programme in *balwadi* (child's place)

The low-cost, replicable model strategy of Pratham works on the basis of following actions:

- Pratham does not own or invest in buildings or vehicles. It does not pay rent for any space, including its administrative offices. Instead, it relies on donated space in communities and municipal schools. This helps in reducing its costs by half on each *balwadi*. Classes are held in spare rooms in community centres, mosques and temples, municipal schools, and the buildings of other organisations. When nothing else is available, classes are held in teachers' homes. The condition for providing rent-free space involves local organisations. Holding classes at public places enhances awareness and acceptance among parents.
- Computer-assisted learning is used. Donor companies provide computers and municipal schools provide space and utilities.
- Pratham recruits teachers and supervisors from outside the organised workforce. These are mostly unmarried young women with a fair amount of education who traditionally do not work outside the home. They work part-time and remain in their local communities. Recruitment is not necessary as departing teachers find and train their replacements. Serving Pratham offers social stature in local community and enhances job satisfaction. Most teachers tend to stick to their jobs reducing mobility and turnover.
- Teacher training constitutes the only high-cost expense but is justified. Evaluation and monitoring are continual ensuring good quality teaching.
- People are the main assets in developing a systematic and rigorous training and monitoring process. Teachers are also entrepreneurs who replicate the model learnt widely in slums situated in towns and cities other than Mumbai.
- Each *balwadi* teacher is an entrepreneur. She initiates and develops her class, charges a nominal fee depending on the parents' capacity to pay and accesses funds from local charities. The organisation is highly decentralised with *Mahila mandals* (women groups) being the focus of action. Each *mandal* is a registered independent citizens' organisation. Decentralisation reduces bureaucratic costs.
- Corporate donors are involved actively through networking and partnerships by lending their staff and facilities and not just funds. The fund raising activities of Pratham extend beyond the borders. Awards to the organisation and to its founder serve to highlight its achievements.

The outcomes of the low-cost strategy are satisfactory in terms of better learning, proficiency in science and languages, and lower rate of school dropouts.

Sources: R. Banerji, M. Chavan, P. Vaish, and A. Varadhachary, 'A Point of Light in Mumbai,' *McKinsey Quarterly*, 1 (2001); 'A Movement to Educate Slum Children,' *Business Line,* 9 September, 2003; BBVA foundation, 'NGO Pratham Takes the BBVA Foundation Frontiers of Knowledge Development Cooperation Award for Providing Quality Education to Millions of Disadvantaged Children in India,' *Journal of India,* 33 (2014); 'Pratham to Hold Fundraiser in London,' *NGO Daily News* (April, 2013) Ashoka International website at *http://www.ashoka.org/node/2555*; and Pratham's website at *http://www.pratham.org/* . All websites accessed on 30 September, 2014.

Conditions under which cost leadership is used Not every condition under which markets operate is conducive to using the cost leadership business strategies. There are certain conditions that make such usage meaningful. Some such conditions are mentioned as follows:

1. The markets for the product/service operate in such a way that price-based competition is vigorous making costs an important factor.
2. The product/service is standardised and its consumption takes place in such a manner that differentiation is superfluous.
3. The buyers may be large and possess significant bargaining power to negotiate a price reduction from the supplying organisation.
4. There is lesser customer loyalty and the cost of switching from one seller to another is low. This is often seen in the case of commodities or products that are highly standardised.
5. There might be few ways available for differentiation to take place. Alternatively, whatever ways for differentiation are possible do not matter much to the customers.

All in all, cost leadership strategies work best when the product/service features are such that buyers are price-sensitive and base their purchase decision primarily on price.

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 discussed in the context of the Porter's five-forces model.

1. Cost advantage is possibly the best insurance against industry competition. An organisation is protected against the ill effects of competition if it has a lower-cost structure for its products and services.
2. Powerful suppliers possess higher bargaining power to negotiate price increase for inputs. Organisations 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 higher bargaining power to effect price reduction. Organisations 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 leadership business strategy are several:

1. Cost advantage is ephemeral. It does not remain for long as competitors can imitate the cost reduction techniques easily. Duplication of cost reduction techniques makes the position of 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.
4. Technological shifts are a great threat to the cost leader as these may change the ground rules on which an industry operates. For instance, technological development may lead to the creation of a cheaper process or product which is adopted by newer competitors. The older players in the industry may be left with an obsolete technology that now proves to be costlier. In this way, technological breakthroughs can upset cost leadership strategies.

As you will note, the cost leadership strategy is based on the premise that low price is an attractive proposition for a customer and she places great emphasis on it in her buying decision. But this is certainly not correct in every case. There might be product or service features that are considered essential by the customer and she is willing to pay something extra for those features. Overemphasis on cost leadership strategy may deprive an organisation of these customers. For example, in most consumer durables after-sale service is considered an essential feature. A cost leader cannot afford to cut down on costs by diluting the after-sale features.

Another point to remember is that lower cost is always relative to what the competitors have to offer. Low cost by itself is not absolute. Cost advantage has to come essentially by operational effectiveness. Such cost advantage should also be sustainable meaning thereby that it should not be easily duplicated by the rivals.

Differentiation Business Strategy

When the competitive advantage of an organisation lies in special features incorporated into the product/service which is demanded by the customers who are willing to pay for it then the strategy adopted is the differentiation business strategy. The organisation outperforms its competitors who are not able or willing to offer the special features that it can and does. Customers prefer a differentiated product/service when it offers them utility that they value and are willing to pay more for getting such a utility. A differentiated product or service stands apart in the market and is distinguishable by the customers for its special features and attributes.

A differentiator organisation can charge a premium price for its products/services, gain additional customers who value the differentiation, and command customer loyalty. Profits for the differentiator organisation come from the difference in the premium price charged and the additional cost incurred in providing the differentiation. To the extent the organisation is able to offer differentiation by maintaining a balance between its price and costs it succeeds. But it may fail if the customers no longer are interested in the differentiated features or are not willing to pay extra for such features.

Observe how these organisations use differentiation business strategies.

- Orient Fans, a company within the Kolkata-based C.K. Birla group, offers premium ceiling fans based on superior technology and product innovation and is a major exporter to many global buyers including Wal-Mart of the US. The technology differentiators are the core benefits of air delivery, reach of air, and electricity consumption. The product attributes for differentiation are extra-wide blades, heavy duty motor, low wattage, high velocity, and maximum area coverage. Ten major rivals in the fan market include market leader Crompton and others like Bajaj, Havells, and Khaitan. A large proportion of the fan market is dominated by fragmented, low cost suppliers in the unorganised sector and cheap imports from China.
- DCW (formally, Dhrangadhra Chemical Works) Home Products, in the branded salt industry, aimed its brand Captain Cook (now with HUL) at the quality conscious salt users. Product attributes such as free-flow nature and iodine content had been highlighted along with utility packaging. The price was premium

category and differentiated from the unbranded salt that is much cheaper. There was tough competition from the first-mover in branded salt, Tata Salt (differentiated on purity) and specialised salt sold by Dabur and Marico (differentiated on health ground).

- Gati, an integrated logistics service provider in India, positions itself as a technology-driven company delivering premium value to customers. It has a joint venture with Kintetsu Worldwide, a Japanese freight forwarding company. It differentiates its services in a highly competitive and uniform market with tangibles like wide coverage, risk insurance offer for shipments, refund on failure to deliver on time, door-to-door pick-up and delivery, time bound operations, online tracking, and safer transportation. The company offers not one but several service features to differentiate itself from the run-of-the-mill transporters in the unorganised sector. Naturally, it charges a higher price for its services.
- In an interesting case, packaging became the differentiator for Parle Agro when, in 1985, it launched Frooti, a non-aerated natural fruit-based drink, in tetrapack. The customer perceived glass bottled drinks to be synthetic. Frooti went on to become generic to the category of tetrapacked fruit drinks especially since it maintained price parity with the popular aerated drinks.

What each of these organisations does is to rely on its inherent strengths to offer special product/service features and attributes that are valued by the customers and for which she is willing to pay a premium price. This differentiation creation capability is then leveraged to achieve competitive advantage.

Achieving differentiation The key to achieving differentiation is to create value for the customer that is unmatched by the competitors at the price at which the differentiator organisation offers its products/services. This is done through incorporating features and attributes in the products/services valued by the customers. These features and attributes could be created at any point on the value chain. For instance, an organisation could use high-quality raw material inputs, superior process technology, speedy and reliable distribution, or better after-sale support. It may offer the backing of a solid reputation of the producer or the strength of a brand name. By whatever means is the differentiation offered, the organisation's product/service should be distinguishable even in a cluttered market place.

An illustrative list of measures that a differentiator organisation can adopt in its product features as follows:

1. Offer utility for the customer and match his/her tastes and preferences.
2. Lower the overall cost for the buyer in using the product/service.
3. Raise the performance of the product.
4. Increase the buyer satisfaction in tangible or non-tangible ways.
5. Offer the promise of high quality of product/service.
6. Enable the customer to claim distinctiveness from other customers and enhance his/her status and prestige among the buyer community.
7. Offer the full range of product and/or service that a customer requires for his/her need satisfaction.

There could be several product attributes and service features that create differentiation. Apart from special product attributes and service features, there could be the promise of more value-for-money, superior after-sale service, engineering design and performance capability, quality manufacturing, technological leadership, reputation of the business group, complete range of product/service, catering to different tastes and preferences, customisation to individual needs. The list of what these features and attributes could be long. Much depends on the innovative ability of the organisation to find newer bases for differentiation.

Conditions under which differentiation is used A differentiation business strategy is suitable for special conditions primarily related to the markets and customers. Generally, one would expect customers to go for product/service that have a lower price and offer comparable utility. But normally, markets and customers are not homogenous; there are several market niches and customer groups that demand special treatment by the organisations. Products/services cannot always be uniform. If they were, they would be commodities needing no special brand names.

The major conditions under which differentiation business strategies could be employed are as follows:

1. The market is too large to be catered to by a few organisations offering a standardised product/service.
2. The customer needs and preferences are too diversified to be satisfied by a standardised product/service.
3. It is possible for the organisation to charge a premium price for differentiation that is valued by the customer.
4. The nature of the product/service is such that brand loyalty is possible to generate and sustain.
5. There is ample scope for increasing sale for the product/service on the basis of differentiated features and premium pricing.

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 differentiation. As you will note, the benefits are discussed in the context of the Porter's five-forces model.

1. Organisations 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 organisation 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 products/service suppliers too pose a negligible threat to established differentiator organisations.

Risks faced under differentiation strategy The risks faced under the differentiation 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 fades away.
3. Differentiation fails to work if its basis is something that is not valued by the customer. This often happens in 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 premium too has a limit. Charging too high a price for differentiated features may cause the customer to forego the additional advantage from a product/service on the basis of his/her own cost-benefit analysis.
5. Failure on the part of the organisation to communicate adequately the benefits arising out of differentiation or over relying 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 an organisation offers. Yet, there is a paradox here that the more tangible the basis is, the greater are the chances that a competitor is able to copy it. So an organisation 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 she is willing to pay.

Focus Business Strategy

Focus business strategies essentially rely on either cost leadership or differentiation but cater to a narrow segment of the total market. Thus, in terms of the market, focus strategies are niche strategies. The more commonly used bases for identifying customer groups are the demographic characteristics (age, gender, income, occupation, etc.), geographic segmentation (rural/urban or northern India/southern India), or lifestyle (traditional/modern). For the identified market segment a focussed organisation uses either the lower-cost or differentiation strategy.

Observe how these organisations adopt the focus strategies either on the basis of lower-cost or differentiation:

- Price is an important consideration in a piracy-ridden industry in India such as recorded music called the phonographic industry. Nearly 70 per cent of the music cassettes sold in India were Hindi film songs a category that is highly price-sensitive. T-Series created a low-end revolution in the 1980s by offering cheap, pirated cassettes of Hindi film songs through an extensive distribution network reaching down to the neighbourhood *paan-wallah* shops. His Masters Voice (HMV), Sony, Polygram, Tips, Bertlesmann Music Group (BMG), Venus, and Magnasound are the other major players. Niches in the recorded music market exist in the segments of Indipop, international, and Indian classical music. Mobile music market is another big segment facilitated by Bluetooth and music transfer software. While Sony Music and Magnasound cater to the upper-end niche Indipop lovers by recorded cassettes, Channel [V] and Music Television (MTV) offer videos. Times Music and Music Today cater to the urban, upwardly-mobile, sophisticated listeners of Indian classical music. Both these companies operate on the basis of differentiation on the basis of niche products and premium pricing.
- Pustak Mahal's Rapidex series of books, particularly aimed at the niche market of Indians seeking to learn the English language, is a low-priced publication keeping in view the highly price-sensitive target audience and book piracy by smaller players in the unorganised sector. It provides various vernacular speakers in the Indian languages an opportunity to learn English through the self-learning mode.
- India typically has had a tradition of highly skilled craftsmen in the jewellery trade. Designs of jewellery vary across regions. Jewellery is considered as an investment for the gold. The branded jewellery business of Titan Industries, Tanishq, operated in a highly fragmented industry. It adopted a differentiation strategy offering a range of gold, pearl, and diamond jewellery for women and men treating jewellery as fashionable item rather than investment. Designs are made on the basis of continual feedback from its extensive retail network of showrooms. New designs are introduced every quarter. The brand projects itself as reputed (Titan is a Tata group company) with an organisation guarantee of purity.
- In the bleak scenario of healthcare in India where most primary health centres and government hospitals are starved of resources and are able to offer low-quality service, there are premium, differentiated hospitals such as the Mumbai-based Asian Heart Hospital and Global Hospitals and Care hospital in Hyderabad that operate in niche areas such as cardiac care, eye care, orthodontics, and laparoscopy serving niche markets of rich Indians and foreigners looking for relatively cheaper healthcare. Private healthcare is a capital-intensive business with long gestation period and the cost of real estate, construction, medical equipment, medicines, and professional medical skills are very high. The patients are charged a high price not only to cover the high cost of providing services and increasing trend of using sophisticated diagnostics but also providing five-star standard patient care.

- Keeping in view the love of Indians for movies, Rudra Entertainment focused on the niche market segment of home videos for the serious film viewer who looks for something else than the typical Bollywood 'masala' films. For the discerning viewers, it offers award-winning documentaries, regional and Hindi art films, and modern classics. Its business model is based on offering full-service marketing and distribution for the film producers. In this manner it serves a segment that would normally be of low interest to the big-budget production, marketing and distribution companies such as AV Meiyappan (AVM) Productions, Mukta Arts, or Yash Raj Films.

Achieving focus Focus is essentially concerned with identifying a narrow target in terms of markets and customers. The organisation seeking to adopt a focus strategy has to locate a niche in the market where the cost leaders and differentiators are not operating. Going beyond the confines of the industry, innovative organisations could also explore the 'blue ocean' segments that they could create and take advantage of.[7]

There might be several reasons why niches are there. One of the major reasons is that cost leaders and differentiators, in an attempt to cover a broad target, tend to leave out segments of the market which require very special attention. In doing so, cost leaders and differentiators may not be able to generalise their product/service to serve a broader segment. So they feel it is more profitable to neglect niches. For example, in the tyre market, replacement for truck tyres constitutes the largest segment of the market while that of tyres for aircraft would be miniscule. Not all tyre companies may feel that it is worthwhile to consider this niche. Some tyre companies however may feel that they have the necessary expertise to do so and they could afford to do. What emerges is a focussed differentiation strategy for specialised tyres for aircraft.

Most product and service categories offer scope for niche marketing. Indeed there will always a small number of buyers willing to pay a higher price for getting some type of special treatment. At the other end of the spectrum there will always be buyers willing to forego perceived frills and additional attributes and features so long as the price paid is low. The examples provided earlier serve as illustrations of how and where an organisation could locate a niche and endeavour to serve it. Other examples could be: automobiles for physically-challenged persons, exclusive retail outlets for the elite customers, specialised medical treatment for well-to-do patients, luxury items for discerning customers, hotels catering to the budget tourists, no-frills products, and bare minimum services.

An illustrative list of measures that a focussed organisation can adopt is as follows:

1. Choosing specific niches by identifying gaps not covered by cost leaders and differentiators.
2. Creating superior skills for catering to such niche markets.
3. Creating superior efficiency for serving such niche markets.
4. Achieving lower cost/differentiation as compared to competitors in serving such niche markets.
5. Developing innovative ways in managing the value chain different from the prevalent ways in an industry.

Conditions under which focus strategies are used Ingenuity to look for something out of the ordinary and a sharp eye for identifying niches are central to focus strategies. Focussed organisations have been able to not only identify but create niches for themselves. Market research often throws up some data that would be considered unimportant in the normal course. For instance, when researching customer needs and wants, an organisation may stumble upon a hidden niche that may not have attracted the attention of existing organisations in the industry. It is for the company to build upon the idea and tailor product and service attributes and features to this niche and come up with a focussed strategy.

Certain conditions are ripe for the adoption of a focus strategy either in terms of lower cost or differentiation. The following are some of the major conditions:

1. There is some type of uniqueness in the segment which could either be geographical, demographic, or based on lifestyle. Only specialised attributes and features could satisfy the requirements of such a segment.

2. There are specialised requirements for using the products or services that the common customers cannot be expected to fulfil.
3. The niche market is big enough to be profitable for the focussed organisation.
4. There is a promising potential for growth in the niche segment.
5. The major players in the industry are not interested in the niche as it may not fit into their own plans or not be crucial to their own success.
6. The focussing organisation has the necessary skill and expertise to serve the niche segment.
7. The focussing organisation can guard its turf from other predator organisations on the basis of customer relations and loyalty it has developed and its acknowledged superiority in serving the niche segments.

Benefits associated with focus strategies Here again, as we did in the case of cost leadership and differentiation strategies, we will look at the benefits and risks associated with focus strategies in terms of the Porter's five-forces model:

1. The focussed organisation is protected from competition to the extent that the other organisations having a broader target do not possess the competitive ability to cater to the niche markets. In other words, a focussed organisation provides products/services that the other organisations cannot provide or would not find it profitable to provide.
2. The focussed organisations buy in small quantities and so powerful suppliers may not evince much interest. But price increments,within reasonable 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 organisations do.
4. The specialisation that focussed organisations is 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 earlier, the competence of the focussed organisation acts as an effective entry barrier to potential entrants to the niche markets.

Risks associated with focus strategies There are several risks associated with the focus strategies. Basically, these arise from the small size of the focussed organisations and its dependence on the niche markets:

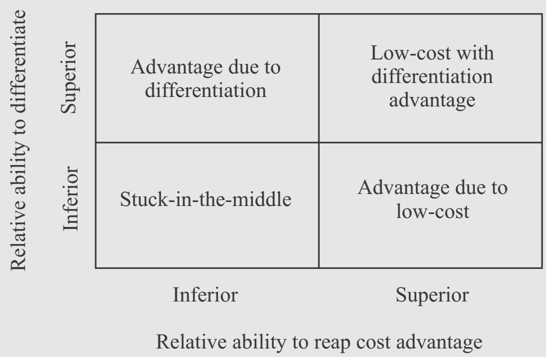
1. First of all, serving niche markets requires the development of distinctive competencies to serve those markets. The development of such distinctive competencies may be a long-drawn and difficult process.
2. Being focussed means commitment to a narrow market segment. Once committed, it may be difficult for the focussed organisation to move to other segments of the markets.
3. A major risk lies in the cost configuration for the focussed organisation. Typically, the costs for the focussed organisation 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 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 markets for cost leaders and differentiator organisations may cause them to look at niche markets with greater interest thereby posing a threat to the focussed organisations.
6. Finally, rivals in the market may sometimes out-focus the focussed organisations by devising ways to serve the niche markets in a better manner.

That the risks to a focussed organisation are real can be seen from the fact that several organisations in competitive industries find it worthwhile to focus on narrower segments. Wider choice of products, greater variety in services, the rising trend to customise products/services to cater to niche markets are evident today in the Indian markets. Take the case of the Indian automobile market. For years, the Indian car buyer had a severely restricted choice of the type of car that he could buy. Now there are several models to suit the taste and pocket of different types of buyers.

Stuck-in-the-Middle Positioning Besides the organisations that clearly are cost leaders, differentiators, or focusers there are some who are not clear about their positioning and end up doing something of everything resulting in doing nothing substantial. This happens, for instance, when a firm adopts a cost leadership position and then starts adding features and frills raising the costs. It reaches a position where it is neither a cost leader nor a differentiator. These are the organisations that are 'stuck in the middle'. Clearly such organisations do not possess a competitive advantage and are doomed to below-average performance.

Exhibit 7.4 presents a diagram to illustrate how stuck-in-the-middle positioning may come about. Organisations differ in their ability to achieve low-cost or differentiation ranging from superior to inferior ability. When an organisation has a superior ability to achieve low-costit can adopt overall low-cost leadership. Similarly, when superior ability differentiation is relied upon, the organisation has a clear positioning to differentiate and get ahead. If the organisation finds itself in a strong position to achieve cost advantage as well as differentiation it can do both as well. The problem arises when it has inferior capability to either reap cost advantage or attain differentiation. It is here that the stuck-in-the-middle positioning occurs.

Exhibit 7.4 Stuck-in-the-middle positioning



Source: Based on ideas in M.E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985).

Positioning through stuck-in-the-middle is failure to develop business strategy on the basis of one of the three generic strategies of cost leadership, differentiation,or focus.This unenviable positioning is often the result of a firm lacking market share, capital, and control on overhead costs to be a cost leader. Or, it may lack the capability to offer differentiation to its customers. Being stuck in the middle often results in low profitability. Depending on a firm's resources and capabilities, a firm stuck in the middle should endeavour to move either towards one of the three generic strategies positioning.

There are contrary opinions to Porter's position on the stuck-in-the-middle positioning. Bruner, for instance, opines that it is not bad to be in the middle; rather, it's bad to be stuck in the middle. To be in the middle means, beings flexible enough to change to either side of cost reduction or product differentiation as the situation demands.Some authors call this 'strategic flexibility'. Strategic flexibility is defined as '…a company's ability to manage strategic risk through its ability to respond to both opportunities and threats in its environment through using its resources in both a pro-active and a reactive way.'[8] Yet, again, there is an opinion that views stuck-in-the-middle as being irrelevant; the more important being providing value to customers from whatever positioning one adopts.[9] Best-value could be one such positioning.

Best-Value Provider Positioning Best-value (also, best-cost) is a concept popular in government and bureaucracy to denote choice in procurement of public services based not on absolute lowest cost but lowest cost at a predetermined level of acceptable quality. When government agencies, such as a municipality, contract out a service it is usually the contractor who offers the lowest price gets the contract. This is because it is easy to compare prices specified in quantitative terms and it seems fair to compare bids on the basis of price and award the contract to the lowest bidder. But the services provided at the lowest price may usually turn out be of poor quality. This is because there is a trade-off between price and quality or performance: higher the price better is the quality but if lower is the price; the lower would be the quality. Thus, it is considered better to accept relatively low price but insist on an acceptable standard of quality of service.

Cost leaders and differentiators can adopt a best-value provider positioning when they offer products and services to customers at the best price-value available on the market. The best value is the relatively lower price charged compared to that charged for a competitor's products with similar attributes. While there are customers in every market who desire the absolute lowest price knowing and accepting that they would certainly not be getting good quality at that price, there are customers who would like to have relatively lower price provided the products and services they get are of a minimum accepted quality standard.

Many organisations would prefer adopting the best-value positioning in their business strategies rather than low-cost leadership. This is what is called 'providing value for money'. Suppose company A offers a mobile phone with x number of features at a price p. Its competitor B offers its mobile phone with x features at price p-1, x+1 features at a price p or even x+1 features at price p-1, then the choice before the customer is obvious. The customer would prefer company B since it offers more value in terms of number of features offered at a given price. Thus, the competitive advantage of the best-value provider arises from its ability to offer the same features at lower price, more features at the same price or, better still, more features at lesser price.

Tata Nano is an example of a low-cost car that did not succeed quite well in the Indian market. Ratan Tata, chairman emeritus of the Tata group, admitted that it was a mistake to market Nano as the world's cheapest car. Tata's positioning was at customers who could not afford expensive cars but wanted to upgrade their mode of transportation from two-wheelers to a cheap four-wheeler vehicle. It turned out that discerning Indian buyers wanted a cheap car but they did not prefer a car that seemed 'cheap' or was too cheap. Subsequent plans are to remake the car from its positioning as the 'people' car' to 'cool people's car'. This means adding stereo, hub cap and chrome trim that will result in raising the price. Possibly that would be best-value positioning and might have a better chance to succeed.[10]

It is clear that, given a choice, a company should choose the best-value provider positioning rather than cost leadership.

Integrating Cost Leadership and Differentiation

In our discussion till here, we have assumed that low-cost and differentiation strategies are mutually exclusive; if a company uses one it cannot, or should not, adopt the other strategy. But this is not always true. Neither is the assumption that lower costs are possible in only larger volumes or that differentiation would necessarily be costlier is always correct. It is possible sometimes to adopt both low-cost and differentiation simultaneously.

Integrating cost leadership and differentiation is possible through providing product/service at low-cost through technologies that enable differentiation through focus on niche segments. Developments in process technology have made it possible to offer a wider variety of products and yet keep the cost low. An organisation that produces through mass production but can use technological means to create variety in the product/service can sometimes combine the benefits of low-cost and differentiation. The use of Computer-Assisted (or-Aided) Design (CAD) and Computer-Assisted (or-Aided) Manufacturing (CAM) and robot technology results in manufacturing of small batch of products at low-cost. This process is called mass customisation.

Flexible manufacturing systems, using mass customisation, allow low-volume production at relatively lower costs. Economies of scope result in mass production of parts, components, and sub-assemblies that can then be used to make small batches of customised products. Flexible manufacturing technology makes it possible to reduce production costs of differentiator organisations to match those of the cost leaders. This is done through the use of robots and flexible manufacturing cells that reduce considerably the cost of retooling the production line and making shorter production runs cheaper. The traditional classification of mass production and intermittent manufacturing is blurred owing to the flexibility with which organisations can use both these production systems. This way it is possible to offer customised low-cost products thereby achieving differentiation. Then, some differentiator organisations produce a larger number of standardised parts and use them as modules to create a wider variety of products thereby reducing the production costs.

Apart from technological means to integrate cost leadership and differentiation, there could be other means too. Vermuelen, in a blog, relates the case of Aravind Eye Care. This hospital performs eye care surgery. It provides free services to 70 per cent of its patients while 30 per cent of the affluent patients are required to pay. Yet, the hospital is able to earn as much as 50 per cent gross margin. The reason is that the immense amount of experience it gains in serving the poor patients serves to hone its skills inventory to such an extent that the rich patients find it safe to get treated there at a price that is not very high.[11]

All in all, the strategic positioning the organisations adopt by being primarily cost leaders, differentiators, or focusers is open to risks. No organisation can make the assumption that the benefits derived out of any one business strategies are for all times to come. It is necessary to continually evaluate one's positioning and take appropriate strategic actions to protect oneself from threats that may arise. Indeed, the purpose of managing an organisation strategically is to be alive to the changes taking place in the environment. Tactics for business strategies help organisations a lot in manoeuvring around obstacles and reaching their goals through astute timing and market location, a topic that we discuss next.

7.4 TACTICS FOR BUSINESS STRATEGIES

LO 4

A tactic is a sub-strategy. It is 'a specific operating plan detailing how a strategy is to be implemented in terms of *when* and *where* it is to be put into action. By their nature, tactics are narrower in their scope and shorter in their time horizon than are strategies'.[12] We shall consider here two tactics of timing (when) and market location (where) used in formulating and implementing business strategies.

Timing Tactics

When to make a business strategy move is often as important as *what* move to make. It is here that timing of the application of a business strategy becomes important. A business strategy of low-cost, differentiation, or focus may be essentially a right move but only if it is made at the right time.

The recognition of time as a strategic weapon and a source of strategic advantage came about in the late-1980s as a result of the ideas proposed by George Stalk Jr., head of innovation and marketing at the Boston Consulting Group. Exhibit 7.5 provides the gist of his article in the *Harvard Business Review*.

Exhibit 7.5 Time as a Source of Competitive Advantage

George Stalk published an article in 1988 and later expanded his ideas on time as a source of competitive advantage in *Perspectives on Strategy* (1998). This exhibit presents his ideas in a nutshell.

Following World War II, the Japanese firms used their low labour costs to adopt scale-based strategies and later focussed strategies to achieve competitive advantage. Focus was achieved through combining the concepts of just-in-time and flexible manufacturing. Through focus, the Japanese firms sought to reap the advantages of both low-cost and wider variety. Next, they adopted time as a critical source of competitive advantage by shortening the product development cycle and reducing process time. Time came to be managed as any other resource such as costs, quality, or inventory.

Stalk considers firms as systems the parts of which are connected by time. The planning loop denotes the time taken for manufacturing activities. Traditional manufacturing systems require longer lead times. Jay W. Forrester, writing on industrial dynamics in *Harvard Business Review* (July–August, 1958), established a model of time's impact on the firm's performance. Since time flows throughout any system, focussing on it results in improvements across the whole process.

Time-based manufacturing concerns shortening production run time, product-based organisation of production process, and decentralised production scheduling. *Time-based sales and distribution* aims at eliminating delays in selling and distribution, reducing costs, and improving customer service. *Time-based innovation* involves small product improvements done more often, using cross-functional teams for product development, and decentralised responsibility for innovative activities. *Time-based strategy* means attacking indirectly the competitors through surprise and gaining market share at least cost. This is different from direct attack done through traditional means of cost cutting and capacity addition that demand superior resources, are costlier, and take a longer time.

The idea of time-based competition continues to guide important contributions in several areas of management particularly in operations management, manufacturing, marketing, product development, concurrent engineering, etc.

Sources: George Stalk, Jr., 'Time—The Next Source of Competitive Advantage,' *Harvard Business Review* (July–August, 1998) and 'It is the Relative Speed that Counts,' Interview of Stalk in *Business Today* (7 July, 1999): 74–77.

First movers and late movers The first company to manufacture and sell a new product or service is called the pioneer or the first mover organisation. The organisations which enter the industry subsequently are late mover organisations. Sometimes an intermediate category of second-movers is also considered to include those organisations which react immediately to the first-movers. Each industry has its first movers, second-movers, and late movers. Our discussion here will, however, be limited to the first-movers and the late-movers only as second-movers, howsoever quick they might be to react, are in any case late-movers.

Consider the example of Parle which is the first mover in the mineral water industry in India that has attracted brands and companies such as Coca Cola's Kinley, Pepsi Company's Aquafina, Manikchand's Oxyrich, and Vijay Mallya's King Fisher brand. Parle has dominated a major share of the mineral water market leading to its Bisleri brand becoming generic to the product category. A case of late mover in this industry is the Delhi-based Vishal Retail Ltd. that planned to introduce its mineral water in 2007, adopting a low-cost strategy offering its product at half the prevailing market price of Rs. 12.

Likewise, in the mutual funds industry, Unit Trust of India (UTI), set up in 1964, is the first mover with a clear lead of several years over other mutual funds in the public and private sectors. Andhra University at Waltair, Visakhapatnam, is the first-mover university in offering the MBA degree programme in India. Indian Institute of Social Welfare and Business Management (IISWBM) at Kolkata is the first-mover in the autonomous institutions segment in the management education industry.

Being the first mover does not always constitute an advantage. Unit Trust of India might be the first-mover but there are any numbers of late-movers such as the Kotak Mahindra group which have posed a stiff challenge to it. Late-movers such as Industrial Credit and Investment Corporation (ICICI) Prudential Life Insurance, Housing Development Finance Corporation (HDFC) Standard Life Insurance, and Max New York Life Insurance are likely to make life difficult for the first-mover Life Insurance Corporation of India (LIC) in the Indian insurance industry. The Indian School of Business (ISB) at Hyderabad similarly is likely to challenge the dominant position of the Indian Institutes of Management (IIMs).

Advantages and disadvantages of being first mover For every Sony or Amazon.com that is a successful first mover there is a Google or Mitsubishi that has been successful as a follower. So it is hard to say whether being a first-mover is advantageous or not. There are advantages and disadvantages associated with being the first mover or late mover. Often the advantages of one type are the disadvantages of the other. This means that the advantages of enjoyed by the late-movers can be the disadvantages for the first-mover organisations.

First, let us see the advantages that might accrue to the first mover organisations:

1. They can establish position as market leader. They can establish business models and gain valuable experience that can enable them to reap the benefits of learning curve that can help them in attaining cost leadership.
2. Moving first in an industry results in early commitments to suppliers of raw materials, new technology, and distribution channels creating cost advantages over late movers.
3. They develop an image of being a pioneer that helps build image and reputation. First movers create standards in different areas for all subsequent products and services in the industry.
4. Moving first constitutes a pre-emptive strike and creates a lead for the first movers. For the late movers, imitation may be difficult and risky.
5. First time customers are likely to remain loyal.

The disadvantages of being a first mover are listed next. Note that these may be the advantages for the late movers:

1. Being a pioneer is often costlier than being a follower. Pioneering organisations have to spend resources on creating customer awareness and education for the products especially if these are new products. Late movers face lesser risks when the markets are developed.
2. Late movers can imitate technological advances, skills, know-how, and marketing approaches easily negating the advantages that first movers are likely to have.
3. Technological change is often rapid creating obsolescence for the first movers. Late movers can jump the technological thresholds and use the latest technology available.
4. Customer loyalty is not guaranteed and can often prove to be ephemeral. Late movers can snatch market share from the first mover. If the first movers have to retain market share and customer loyalty then additional efforts have to be put in.

The advantages and disadvantages for a first mover show that good timing is important. The advantages cannot just flow to the first movers. An article on first movers in the case of emerging markets such as India point out that 'the order of entry *per se* does not guarantee sustainable advantage. Unless a first mover has the necessary human, physical and monetary resources to outperform the late entrants, it cannot enjoy sustainable advantage'.[13] In case, conditions are conducive to being a first mover then what matters are the strategies, positioning, and entry barriers that the first mover organisation is able to create. It is not always the case that an organisation has to be a first mover even if it has the opportunity. Smart late movers can turn the apple cart and beat the first movers at their own game. Sometimes fence sitting till some other organisations test the waters in an industry may be a prudent business strategy than jumping straight away in order to be the first mover. Late movers can succeed if they have the staying power, can learn from the mistakes of the first movers and fine tune their business tactics accordingly. Exhibit 7.6 offers some insights into the dynamics of the deregulated insurance industry in India and what it means to be a first mover or a late mover in this industry.

Exhibit 7.6 The Pros and Cons of being the First Mover in the Deregulated Indian Insurance Industry

The insurance industry in India offers some meaningful insights into the advantages and disadvantages of being a first mover. This industry for long had been closed to the private sector after it was nationalised in 1956. The process for deregulating started in 1993 when the Malhotra Committee was set up by the Government of India to examine the various aspects of the insurance industry. The adoption of the committee's recommendations led to opening up of the industry and setting up of the Insurance Regulatory and Development Authority (IRDA). Three licenses were issued by IRDA to ICICI Prudential Life Insurance, HDFC Standard Life Insurance, and Max New York Life Insurance in October 2000. There are fifteen companies operating in the life insurance segment and twelve in the general insurance segment of the industry. Several domestic and international insurers are waiting to enter the Indian insurance industry.

Life insurance business in India in terms of first year premium has shown a growth of more than 95 per cent over the previous year and non-life, or general insurance, is not far behind either, growing at 22 per cent during 2006–07 in terms of new business premium—proving that insurance industry continues to remain a sunrise industry.

There are two major segments in the insurance industry that of life insurance and non-life or general insurance. For the life insurance it is probable that being a first mover can be advantageous while for the general insurance being a late-mover could prove to be better tactics.

The reasons why first mover tactics can work better in life insurance are as below:

1. Life insurance in India has been traditionally viewed as a tax saving device. First movers can take the lead in educating customers about the true value of life insurance beyond tax savings.
2. First movers will have to build credibility to handle people's savings as trust is extremely important to Indian customers in matters of purchase of financial services and entrusting money to private sector firms.
3. Providing life insurance services requires building up of a vast infrastructure to provide speedy and efficient service to customers.

First movers can utilise the lead times in customer education, creating credibility, and building up infrastructure. Among the first movers, ICICI Prudential has fared the best.

The reasons why first mover tactics is not likely to work in general insurance are as follows:

1. General insurance purchasers do not place as much emphasis on credibility as they would do for service attributes of value, price, and adherence to regulations.
2. Risk assessment systems and data for such an assessment are not fully developed in India.
3. Standardisation of operations and processes is poor in India and effective qualification and monitoring is almost non-existent.
4. Switching from one general insurance provider to another is relatively easier than it is for life insurance.

Late movers can learn from the mistakes of the first movers to offer better service attributes, wait for the risk assessment systems to develop and the operations and processes to be standardised, and design tactics to snatch business from the first movers.

The Indian insurance industry has successfully completed the first phase of reforms by having a smooth transition from a state-controlled monopolistic structure to a free-market competitive industry. It is expected that some market segmentation may take place with some companies becoming financial conglomerates and some others transforming themselves into niche players.

Sources: Based on M. Zervoudis & A. Karamchandani, "The Monitor Group study on insurance - III" in *Business Today*, May 22–June 6, 2000, pp. 122–125 and G. Krishnamurthy, "Bracing for competition" in *The Hindu Survey of Indian Industry 1999* pp. 51 – 53; V. Jagannathan: "Get ready for next phase of reforms" *domain-b.com* Jan 5, 2006; and S.S. Dagar: "Over the hump" *Business Today* Jun 17, 2007.

Market Location Tactics

The second important aspect of business tactics is market location. This aspect deals with the issue of *where* to compete. By this is meant the target market the organisation aims at in applying its business strategies. Every industry has a number of organisations that offer the same or substitute products or services. The total market share in an industry is carved up by these organisations. One organisation has the largest market share, some other organisations have a relatively larger market share, a few others have small market share, and there are organisations that operate only on the fringes and not in the mainstream markets.

Market location could be classified according to the role that organisations play in the target market and the type of business tactics they adopt to play such a role. We adopt the classification of market location tactics done by the marketing guru, Philip Kotler[14] and used in contemporary strategic management texts such as that by Wheelen and Hunger.[15] He terms these tactics as the competitive strategies. We expect that you have studied these strategies in your marketing management courses and so would only review them here. It would be helpful if you review your marketing text as you read further.

On the basis of the role that organisations play in the target market, market location tactics could be of four types: *leader, challenger, follower, and nichers*. As you will note, the essence of these tactics has been derived from military science. This is understandable since the competitive industries are virtual battlefields for competing organisations. At this point let us recall that the term strategy too is a gift to management from the military science. A brief description of the four types of market location tactics follow:

1. **Market leaders** are organisations that have the largest market share in the relevant product market and usually lead the industry in factors such as technological developments, product and service attributes, price benchmarks, or distribution channel design. In order to take up the market leader position and to retain it, Kotler proposes these three strategies (we would prefer to call these as approaches to distinguish it from strategy which has a much broader meaning for us in strategic management):
   - *Expanding the total market* through new users, new uses, and more usage.
   - *Defending the market share* through position defence, flank defence, counteroffensive defence, mobile defence, and contraction defence.
   - *Expanding the market share through enhancement of operational effectiveness* by means such as new product development, raising manufacturing efficiency, improving product quality, providing superior support services or increasing marketing expenditure.
2. **Market challengers** are organisations that have the second or lower ranking in the industry. These organisations can either challenge the market leader or choose to follow them. When they seek to challenge the market leader they do so in the hope that they would be able to gain market share. The tactics adopted by the market challenger have several components. First, the challenger has to define the objectives and the opponents, choose a general attack strategy, and then choose a specific attack strategy. The most common objective of the challenger is increasing the market share. It could, however, also be a somewhat devious aim, say to drive the opponent out of the industry. A general attack approach could be of five types:
   - *Frontal attack* involving matching the opponent in terms of the product, price, promotion, and distribution.
   - *Flank attack* involving challenging the opponent's weak or uncovered geographical or segmental areas.
   - *Encirclement attack* involving a grand move to capture the opponent's market share through means such as launching an advertising blitzkrieg, making an unbeatable product-related offering, or presenting a unique service guarantee.
   - *Bypass attack* involving ignoring the opponent and attacking the easier markets by means such as

diversifying into unrelated products, moving into new geographical areas, or leapfrogging into new technologies.

- *Guerrilla attack* involving small, intermittent attacks to harass and demoralise the opponent organisation and eventually secure an organisation foothold in the industry. This could be done by means such as price cuts, price discounts, intensive comparative advertising or initiating legal action.

3. **Market followers** are organisations that imitate the market leaders but do not upset the balance of competitive power in the industry. They prefer to avoid direct attack, keep out of the way of other organisations, and reap the benefits of the innovations made by the market leaders through imitation. The market follower may adopt four broad approaches as follows:
   - *Counterfeiter strategy* involving duplicating the market leader's product and packaging and selling it in the black market.
   - *Cloner strategy* involving emulating the market leader's products, name, and packaging.
   - *Imitator strategy* involving copying some things from the market leader while retaining some other features such as pricing, packaging, or advertising.
   - *Adapter strategy* involving adapting one's own products to those of the market leader and selling them in different markets.
4. **Market nichers** are organisations that carve out a distinct niche that is left uncovered by the other organisations in the industry or a niche that is of little or no interest to others. The niche strategies are akin to focus business strategies as they target a market position that is small and unique and require special competencies in order to be served. There are several means through which specialisation for serving a niche market can be developed. Excelling in providing a special product or service attribute, serving a distinct geographical area or offering customised product or service to a select group of customers are some such means. Market niche strategies carry the risks that we identified for focus business strategies. For instance, a market leader may choose to expand its own market coverage to serve a niche thereby negating the advantages enjoyed by the market nicher. Market nichers can adopt three approaches which are as follows:
   - *Creating niches* involving looking for ways and means by which niches can be identified or created in an industry.
   - *Expanding niches* involving enhancing the coverage of present niche to include similar market niches or new niches.
   - *Protecting niches* involving shielding the niches served from attacks by other organisations in the industry.

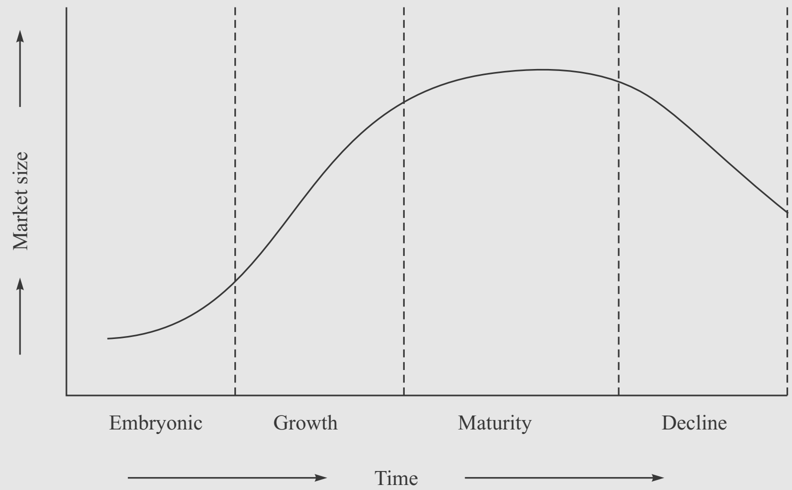
With this we complete our discussion of the tactics for business strategies. We now move to a discussion of business strategies under different industry conditions.

7.5 BUSINESS STRATEGIES FOR DIFFERENT INDUSTRY CONDITIONS — LO 5

Business strategies are addressed to a particular industry and markets. A cement business relates to the cement industry; a retail hypermarket is a part of the retailing industry. Industries, like products, pass through different stages of growth. Most probably, you are aware of the idea of product life cycle you studied in your marketing course. Similar to that is the idea of industry life cycle. It says that industries typically pass through different stages of their lifecycle starting from embryonic through decline. In this section, we will describe different industry conditions and what types of business strategies suit those conditions.

Typically, industries pass through four stages in their life cycle as shown in Exhibit 7.7. These four stages and the business strategies that suit the conditions in each of these stages are discussed next.[16]

Exhibit 7.7 Four Stages of Industry Lifecycle



Embryonic Stage

Biotech, bioinformatics, cyber media, drug development, entertainment and green or environmentally-friendly products, and services such as organic foods are some of the major industries in India considered to be in the embryonic or take-off stage.

Typically, in the embryonic stage of the industry lifecycle the conditions present are as follows:

- Investment and capital needs are highest as the industry has just started. Returns are low and uncertain.
- Companies are first movers and fast followers who have to generate capital internally or attracted outside capital usually from venture capitalists.
- Technology is yet unproven and not standardised.
- Demand is being established; customers lack information and are hesitant to try out new products or services
- Business models are unproven; business uncertainty is high and managerial decisions involve high risks

Under these conditions, the business strategies need to help organisations to help set up their base, develop competencies, and build market share. Early movers may be able to establish market share. Share building is therefore the dominant component of business strategy. If the company fails to either attract sufficient capital, establish market share, or develop competencies it is better to exit.

Growth Stage

Automobile, fashion, IT, mobile telephony, pharmaceutical, primary education, private healthcare, and retailing are generally considered as some of the major growth industries in India. A popular term for growth industries is sunrise industries.

As products and services gain sophistication and markets expand the industry enters the growth stage. Ongoing technological developments make products easier to use, key complementary products develop, and the costs reduce fuelling further demand.

Typically, in the growth stage of the industry life cycle the conditions present are as follows:

- Investment and capital needs decrease but gradually. Returns are high.
- Technology gains a firm footing and standardisation increases.

- Demand is established, customers gain information and learn to differentiate between the product offerings.
- Business models take shape and business is on more secure footing and managerial decisions involve moderate risks.
- Market share of incumbent companies increases; new bases for market segmentation emerge.

Under these conditions, the business strategies could be either low-cost or differentiation. Rapid growth increases benefits from learning curve and help companies to establish low-cost positions difficult to imitate at least initially. As late movers move up the experience curve they too learn to imitate the techniques of cost leaders blunting their edge in terms of competitive advantage. Cost leaders need to continually come up with new ways to lower costs and keep their cost advantage or lose market share to newer entrants. Companies that cannot, or choose not to, compete on low-cost basis learn to differentiate. Differentiators establish the bases for differentiation such as technological lead or product quality. Focus strategies emerge as competitors carve out their special expertise areas and leave underserved niches.

Maturity Stage

Steel, textiles, manufacturing, oil and gas, cinema, and business process outsourcing industries are some of the major industries generally considered mature in India.

Demand conditions in the growth stage typically accelerate initially and then decelerate as markets get saturated with more companies entering the industry. Intensity of competition increases as there is lesser share of the market available to contenders.

Typically, in the maturity stage of the industry life cycle the conditions present are as follows:

- Investment and capital decrease significantly. Returns are lower and stabilise.
- Technology developments are few and standardisation is high.
- Demand is stable, customers are well-aware of options available, and have learnt to choose and differentiate.
- Business models are well established.
- Market shares of companies are steady and jealously guarded
- Industry gets consolidated and is dominated by small number of large companies

Under these conditions, business strategies of all three types: cost leadership, differentiation, and focus are in use. Cost leaders continually try to keep ahead in terms of cost advantage they have garnered in the growth stage. Differentiators also guard their turf by continually looking for new ways to segment markets. Focusers have entered into niche segments in the growth stage and are content to keep them. In the event of larger rivals entering into those niches owing to competitive pressures—quite likely in the maturity stage—the focusers sell out and exit.

Decline Stage

Agriculture, mining, print media, tobacco (including *beedi*) are some of the major industries in India considered to be in a declining stage. A popular term used in India is ‘sick industries’ that refers to individual industrial units that have declined in performance or are declining. If we look at the total number of industrial units that are classified as sick units and the industries they belong to then the declining industries in India could be metallurgical, cotton textiles, paper and pulp, etc.[17]

The duration of maturity varies from industry to industry. Some industries enjoy a very long period of maturity while others face an early demise.

Typically, in the decline stage of the industry life cycle the conditions present are as follows:

- Investment and capital practically cease. Returns decline.
- Technological developments become superfluous.

- Demand shrinks and it becomes difficult to attract new customers.
- Products tend to become commodities and lose their brand power.
- Market shares reduce in size as industry demand shrinks.
- Industry faces movement of firms through retrenchment strategies.

Under these conditions, business strategies of low-cost tend to gain an upper hand. Since products lose differentiation and tend to become commodities, price-based competition intensifies. The intensity of competition lessens the inclination of firms to invest in innovation for differentiation thereby leaving the field to low-cost leaders. Focusers find it difficult to hold on to their niche as bases for defining narrow competitive scope tend to disappear. Niche customers find the products of cost leaders to be attractive enough. Differentiators and focusers exiting the industry look for sell-out opportunities to cost leaders helping them to improve their scale economies at low initial investments.

In each of the four stages, described earlier, we have referred to the usual conditions. In actual cases of embryonic, growth, mature and declining industries, the conditions described and the business strategies may not exactly match. Each case can have variations. Growth stage of industry may see early entrants leaving or decline stage may have focusers in well-entrenched positions.

In the next two sections, we will discuss business strategies with reference to internationalisation.

7.6 BUSINESS STRATEGIES AND INTERNATIONALISATION

LO 6

Section 6.5 dealt with internationalisation as a corporate strategy. We learnt that there are four types of international corporate strategies that organisations adopt. These are the international, multidomestic, global, and transnational strategies. Here we will discuss some features of internationalisation that are relevant for business strategies. First, it must be clear that organisations adopt the business strategies of cost leadership, differentiation, and focus at the international level too. Secondly, that leveraging national and organisation-specific advantages play a significant role in business strategies. But first let us revert to the Porter's diamond of competitive advantage of nations.

The model of competitive advantage of nations, discussed in Section 6.5, tells us that four determinants of a nation's competitive advantage are: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. These four determinants help us to locate the industries in which a nation can possess competitive advantage with respect to other nations. Home country advantages, thus, become important basis for competitive advantage for an organisation when they choose to operate abroad. But this can happen only when the organisation formulates and implements a strategy that is designed to reap the advantages of home country. It is for this reason that home country advantages become important when business strategies of cost leadership, differentiation, and focus are implemented internationally.

Leveraging Home Country Advantages for Businesses

It is generally agreed that India possesses significant home country advantages in three industries: automobile parts and components, IT services, and generic pharmaceuticals. We look forward to developing international competitive advantage in some other industries such as services (e.g. healthcare) and entertainment (e.g. motion pictures).

When an organisation adopts internationalisation strategies it quite often leverages the home country advantage to the international level. Thus, a successful domestic player in auto parts and components seeks to leverage its domestic advantage in entrepreneurship and low-cost manufacturing to international level. A successful IT services provider nationally finds it easy to extend its domestic advantage of low-cost IT skills by entering foreign markets. A generic pharmaceuticals company enjoying domestic success leverages its home country advantage of large national demand and cheap research and development (R&D) skills to explore greener pastures abroad.

Taking the case of auto parts and components, India possesses cost advantage particularly in castings and forgings. Typically, the manufacturing costs in India are 25 per cent to 30 per cent lower than those in developed countries. Besides, many Indian suppliers offer full-service capability. Indian companies supply of a range of high-value and critical components to global auto firms such as General Motors, Toyota, Ford, and Volkswagen. Leading manufacturers of auto components in India include Amtek Auto, Bharat Forge, Motherson Sumi, Motor Industries Company of India, Rico Auto, Subros, Sundaram Fasteners, and Wheels India.[18]

The case of Amtek Auto illustrates how a company leverages the India advantage in castings and forgings and take various actions to internationalise. Amtek Auto, set up in 1985, has several factories in India and abroad; supplies to a host of domestic automobile companies; specialises in engine, transmission and suspension systems using aluminium diecasting; has technical collaborations and joint ventures companies in many countries Low-cost business strategy helps Auto Amtek in its internationalisation.

Leveraging Organisation Specific Advantages for Businesses

Leveraging home country advantage can explain the success of organisations in the automobile parts and components, IT services, and pharmaceuticals but not of those who are in other industries. Many of the organisations in other industries have to rely on their own competitive advantages to internationalise. According to United Nations Conference on Trade and Development (UNCTAD's) *World Development Report 2006*, Oil and Natural Gas Corporation Ltd. (ONGC) is India's only transnational corporation (TNC) among the top 100 non-financial global TNCs. Oil and gas is certainly not India's competitive advantage. Oil and Natural Gas Corporation Ltd. therefore relies on its own competitive advantage to attain a global status. The Tata group mostly operates in mature industries in India almost all of which do not provide it national competitive advantage except in IT services. Yet its internationalisation drive through acquisitions aims to make it a global conglomerate in areas such as chemicals, hotels, and steelindustries in which the Tata group possesses significant competitive advantages. Many FMCG sector companies in India such as Godrej, Marico, Dabur, and Tata Tea are adopting internationalisation strategies in the developing countries in Africa and Asia on basis of their competitive advantages in terms of low cost and other capabilities. While doing so, these companies adopt low-cost, differentiation or focus business strategies in the international context.

The next chapter is related to the subject of strategic analysis and choice.

Summary by Learning Objectives

This chapter has been devoted to the business strategies. As you saw, the business strategies are related to the individual businesses in an organisation. The real action occurs at the level of business strategies as the competitive forces in the market are confronted by an organisation at the level of business strategies.

The main points covered in this chapter are as follows:

LO 1 *Describe how corporate-level strategies, business definition, and business model act as the foundations for business strategies*

- The foundations of business strategies are explained in terms of three points referred to earlier in this book. First, we note that business strategies operate below the corporate-level strategies and are derived from them. Secondly, we learn that corporate-level strategies deal with a portfolio of businesses in such a manner that the overall returns are optimised. So corporate-level strategies can guide the individual businesses towards growth. Thirdly, the business definition involving the 'what, who, and how' related to a business provide the direction in which action has to be taken to formulate the business strategies.
- Business strategies are the courses of action adopted by an organisation for each of its businesses separately to serve identified customer groups and provide value to the customer by satisfaction of their needs.

LO 2 *Identify how industry structure and positioning of the firm in the industry help to determine the competitive advantage*

- Competitive advantage is derived from core competencies of the organisation. Organisations operate in the context of an industry where competitive advantage is ultimately won or lost. Organisations attempt to define and establish an approach to compete in their industry through their business strategies.

- The dynamic factors that determine the choice of a competitive strategy are two namely the industry structure, and the positioning of an organisation in the industry.
- Industry structure is determined by the competitive forces of 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.
- Positioning is the organisation's overall approach to competing. It is based on two variables of competitive advantage and competitive scope. Competitive advantage can arise due to two factors of lower cost and differentiation. Competitive scope can also be in terms of two factors of broad target and narrow target.
- When the two factors of positioning: the competitive advantage and competitive scope are combined what results is a set of generic competitive strategies or business strategies.

LO 3 *Discuss and give examples of achieving cost leadership, differentiation, and focus generic business strategies, conditions under which each of these are used, and their benefits and risks*

- Business strategies are of three types: cost leadership (lower cost/broad target); differentiation (differentiation/broad target); and focus (lower cost or differentiation/narrow target).
- Cost leadership is achieved by lower cost of products or services relative to those of competitors. Differentiation is achieved by special features in products or services that are demanded by customers and who are willing to pay for it. Focus is either in terms of cost leadership or differentiation such that the organisation caters to a narrow segment of the total market.
- Action needs to be taken for achieving the aims of the business strategies. There are special conditions under which these strategies work the best. Each business strategy has a set of benefits and risks associated with it.
- Stuck-in-the-middle positioning occurs when an organisation does not have either of the two generic strategies of cost leadership or differentiation. Such positioning often results in not having competitive advantage.
- Best value provider positioning is offering relatively lower price for a product or service of acceptable quality. Such positioning is often used instead of cost leadership business strategy.
- Cost leadership and differentiation, in practice, are not mutually exclusive and could be used simultaneously through the adoption of technical means such as flexible manufacturing systems and mass customisation.

LO 4 *Explain the two types of tactics used for business strategies: timing and market location*

- A tactic as a sub-strategy is a specific operating plan detailing how a strategy is to be implemented in terms of when and where it is to be put into action. Two types of tactics of timing (when) and market location (where) are used in formulating and implementing business strategies.
- In terms of timing there are basically two types of organisations, the first mover and the late movers. The first company to manufacture and sell a new product or service is called the first mover organisation. The organisation that follows immediately is the second mover and those who do subsequently are late mover organisations. There are advantages and disadvantages associated with being either a first mover or a late mover. Organisations need to carefully consider these before making a move.
- Market location is the target market the organisation aims at in applying its business strategies. The market location tactics could be of four types: leader, challenger, follower, and nichers. Each of the market location tactics can result in several different approaches to formulate the business strategies.
- Market leaders are organisations that have the largest market share in the relevant product market and usually lead the industry in several aspects. Market challengers are organisations that have the second, third, or lower ranking in the industry. Market followers are organisations that imitate the market leaders but do not upset the balance of competitive power in the industry. Market nichers are organisations that carve out a distinct niche that is left uncovered by the other organisations in the industry or a niche that is of little or no interest to others.

LO 5 *Indicate business strategies for four different industry conditions*

- Business strategies are addressed to a particular industry and markets and industries typically pass through different stages of their life cycle starting from embryonic through decline. In the embryonic stage, business strategies need to help organisations to help set up their base, develop competencies, and build market share. In the growth stage, business strategies could be either low-cost or differentiation. Demand conditions in the growth stage typically accelerate initially and then decelerate as markets get saturated leading to the maturity stage. In the decline stage, business strategies of low-cost tend to gain an upper hand.

LO 6 *Demonstrate leveraging home country advantages and organisation-specific advantages for international business strategies*

- Leveraging national and organisation-specific advantages play a significant role in business strategies and organisations adopt the business strategies of cost leadership, differentiation, and focus at the international level too. When an organisation adopts internationalisation strategies it quite often leverages the home country advantage to the international level. Many of the organisations in other industries have to rely on their own competitive advantages to internationalise.

  In the next chapter we take up the discussion of strategic analysis and choice.

EXERCISE

Short-answer Questions

1. Explain what is meant by business strategy. **(LO 1)**
2. How is business strategy related to corporate-level strategy? **(LO 1)**
3. What is the importance of business strategies? **(LO 1)**
4. How can a business definition be used for identifying the type of business strategy an organisation could employ? **(LO 1)**
5. Explain the terms: (a) industry structure (b) positioning of organisations within industry. **(LO 2)**
6. Explain the terms: (a) competitive advantage (b) competitive scope. **(LO 2)**
7. What does broad target and narrow target mean in the context of competitive scope? **(LO 2)**
8. Explain these types of business strategies: (a) cost leadership (b) differentiation (c) focus. **(LO 3)**
9. Differentiate between low-cost focus and differentiation focus. **(LO 3)**
10. What are the aims of these business strategies: (a) cost leadership? (b) differentiation? (c) focus? **(LO 3)**
11. How are the aims of these business strategies achieved: (a) cost leadership? (b) differentiation? (c) focus? **(LO 3)**
12. Under which conditions are these business strategies used: (a) cost leadership? (b) differentiation? (c) focus? **(LO 3)**
13. What are the benefits and risks associated with these business strategies: (a) cost leadership? (b) differentiation? (c) focus? **(LO 3)**
14. What is the danger in being a company having neither cost leadership or differentiation? **(LO 3)**
15. Is it possible to have cost leadership and differentiation simultaneously? **(LO 3)**
16. What is meant by being a first mover in an industry? a late mover? **(LO 4)**
17. What are the advantages and disadvantages in being a first mover in an industry? a late mover? **(LO 4)**
18. What is meant by market location tactics of business strategy? **(LO 4)**
19. Explain these market location tactics of business strategy: (a) market leadership (b) market challenger (c) market follower (d) market nicher. **(LO 4)**
20. What are the characteristics of business strategies in an industry operating in the:(a) embryonic stage (b) growth stage (c) maturity stage (d) decline stage? **(LO 5)**
21. How can organisations leverage home-country advantages for their international business strategies? **(LO 6)**
22. How can organisation-specific advantages be leveraged for international business strategies. **(LO 6)**

Assurance of Learning Exercises

1. Build up an argument to demonstrate how most competitive interaction occurs at the level of business strategy and where competitive advantage in an industry is won or lost by a company. **(LO 1)**
2. Based on the idea of business definition of a company of your choice, identify the business strategies that company could adopt. **(LO 1)**
3. Discuss Michael Porter's approach to defining generic competitive (or business) strategies. **(LO 2)**

4. Select a company which is a market leader in a competitive industry in India (you could, for instance, take HUL in the FMCG industry). Identify the sources of competitive advantage of your chosen company. **(LO 2)**
5. For each of these business strategies, describe how they are used, under which conditions are they used, and the associated benefits and risks: (a) cost leadership (b) differentiation (c) focus. **(LO 3)**
6. Discuss the conditions under which an organisation can attain cost leadership and differentiation simultaneously. How is this achieved? **(LO 3)**
7. Conduct internet research to identify Indian companies employing (a) cost leadership (b) differentiation (c) focussed cost leadership and (d) focussed differentiation business strategies. **(LO 3)**
8. Is your business school a first mover/late mover in the management education industry in India? What are the advantages and disadvantages in either case? **(LO 4)**
9. Write a convincing argumentative note on the topic: 'Good timing is crucial for a successful business strategy'. **(LO 4)**
10. Describe the market location tactics employed by organisations. Highlight the approaches to be used in each of the different types of such tactics. **(LO 4)**
11. Identify the features of business strategies that would be appropriate under the following industry conditions (a) embryonic (b) growth (c) maturity and (d) decline.
12. Discuss the manner in which organisations can leverage India's home-country advantages and their own advantages in adopting business strategies internationally. **(LO 5)**
13. Does India possess significant home country advantages in the motion pictures industry? Express your opinion backed with facts collected through Internet research. **(LO 6)**
14. Pick up relevant examples from business magazines in your business school library that demonstrate how Indian companies are leveraging their organisation – specific advantages for internationalisation. **(LO 6)**

Review Case

COMPETITIVE STRATEGIES AT WHIRLPOOL INDIA: PLAYING IT COOL*

Whirlpool India is a part of the century-old MNC, Whirlpool Corporation, that is a global manufacturer and marketer of home appliances with its headquarters at Michigan, US. It is claimed to be the world's largest white goods company, a status it reached in 2006. Whirlpool Corporation had sales of $19 billion, more than 69,000 employees, operating in 130 countries and having more than 70 manufacturing and technology research centres around the world in 2013. Among its 11 major brands are Whirlpool, Maytag, and Kitchen Aid that are produced in 13 countries. The initial internationalisation of Whirlpool Corporation began in 1958 when it entered Brazil. Serious efforts came in the 1980s when it started adopting an aggressive strategy to be a world-class company.

India was identified as a growth market sometime in the late-1980s. Entry into India was made through a joint venture with TV Sundaram (TVS) Group to produce automatic washers at Pondicherry. In 1995, Kelvinator of India Limited was acquired to facilitate entry into the refrigerator market in India. Majority ownership in the joint venture with TVS led to emergence of Whirlpool of India Limited in 1996. Whirlpool Asia South, headquartered at Gurgaon, India, oversees the company operations in several countries from Nepal to Australia. The vision of Whirlpool India is stated as: 'Best branded consumer products...in every home around the world' The mission statement is 'Create demand and earn trust everyday'.

Whirlpool India is one of the popular brands of home appliances in India. The business portfolio of the company consists of four lines: air treatment, fabric care, food preparation, and foodstream solutions. The product portfolio includes air conditioners, microwave ovens, refrigerators, and washing machines. The manufacturing facilities of Whirlpool India at Faridabad and at Ranjangaon near Pune are dedicated to making refrigerators and at Pondicherry for washing machines. India also hosts the Whirlpool's technology/product development centre, global technology centre, and a global design centre. The company website was re-launched in 2006 and made more interactive, providing a forum not only for information but also for performing the sales functions.

Whirlpool has transformed itself from an accomplished manufacturer to a consummate marketer a process that is said to be achieved through brand building framework that aimed at building excellent brands and engendering customer loyalty. The brand positioning based on the theme: 'Whirlpool; designed to delight' aims at product leadership by focusing on the customer through product design and intuitive technology that responds to the way she uses the company products. The company had been following the responsive approach since long by initiatives such as making Whirlpool 'your partner in homemaking'. It came up with innovations in products based on customer convenience and making them suitable to the Indian context. For example, its refrigerators have incorporated quick chill design, movable trays, space for large bottles, and capacity to withstand heavy loads—all features unique to the requirements of a typical Indian household.

Distribution and after-sale service of products are critical factors for success in the white goods industry Whirlpool operates in. It has launched a series of project named 'Akraman' (attack) to streamline sales and distribution through aggressive sales push to extend the reach of the products. Brand shop initiatives have also been implemented to improve distribution. E-commerce is in the initial stages where the website has been revamped and a mobile version is being launched. Direct-to-Home (DTH) channel distribution is being implemented through service partners.

The consumer durables or the white goods industry in India is a growing industry albeit at a slow rate. There is overcapacity in the industry. There are strong competitors such as the multinationals LG or Samsung and strong domestic players such as Godrej and Voltas. It's a tough market for the best of marketers. The Indian consumer is hard-to-convince and demands value for money and is not swayed easily by the hype built around products through advertising campaigns.

The period 2011–14 has been lacklustre for the consumer durables industry in general and Whirlpool has faced challenges in lower revenues and profitability forcing it to adopt defensive strategies. With improving business environment, the strategies are transforming to aggressive with the aim at achieve Rs 100 billion turnover by 2018, a target that may seem quite challenging to achieve. Focus is on new products with better performance and features aimed at market leadership backed by a brand that is perceived as young, dynamic, and international.[19]

Questions

1. Analyse the case to identify the type of generic business strategy or strategies Whirlpool India is adopting. **(LO 1, LO 2, LO 3)**
2. In your opinion, what is the stage of industry development in the consumer durables industry in India? Depending on your answer, comment on whether Whirlpool India's generic business strategies are appropriate. **(LO 3, LO 5)**
3. What aspects of internationalisation of Whirlpool India can you identify in the case? Discuss briefly. **(LO 3, LO 6)**

Notes and References

1. Website of Marico at *http://marico.com/india/about-us/overview*; Annual Report 2013–14 at *http://marico.com/investorspdf/Annual_Report_2013-14.pdf*; Analyst presentation at *http://marico.com/investorspdf/Marico_Investor_Presentation_-_Feb14.pdf*; 'Marico Kills Two Birds with One Stone' at *http://www.livemint.com/Money/dfpWQcuXY6FM-JWBVeOZanL/Marico-kills-two-birds-with-one-stone.html?utm_source=copy*; 'Marico's Unique Paras Strategy' at *http://forbesindia.com/article/boardroom/maricos-unique-paras-strategy/35763/1*. All websites retrieved 6 December, 2014.

2. C. A. Montgomery and M. E. Porter, *Strategy: Seeking and Securing Competitive Advantage* (Boston, MA: Harvard Business School Publishing,1991): xiv.
3. S.M. Shafer, H.J. Smith, and J.C. Linder, 'The Power of Business Models,'*Business Horizons* Elsevier, 48, no. 3, (2005): 199–207.
4. C.W.L. Hill and G.R. Jones, *Strategic Management: An Integrated Approach* (Boston, MA: Houghton Mifflin, 2007): 6.
5. The major writings of Michael E. Porter that explain his theory, principles, and techniques of strategy and allied issues are in the form of three books: *Competitive Strategy: Techniques for Analyzing Industries and Competitors*(1980);*Competitive Advantage: Creating and Sustaining Superior Performance* (1985), and *The Competitive Advantage of Nations* (1990).
6. H. Mintzberg, B. Ahlstrand, and J. Lampel, *Strategy Safari: A Guided Tour through the Wilds of Strategic Management* (New York: The Free Press, 1998). Also see Chapter 1 of our book for explanation of positioning school of thought.
7. 'Blue ocean' is the term used to denote unexplored or innovatively-created segments of the market that could be served profitably by entrepreneurial firms. See W. Chan Kim and Renée Mauborgne, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant*(Boston, MA: Harvard Business Review Press, 2005).
8. N. Robertsand G. J. Stockport, 'Defining Strategic Flexibility,' *Global Journal of Flexible Systems Management*, 10, no. 1 (January–March, 2009): 27.
9. Bob Bruner's blog at *http://blogs.darden.virginia.edu/deansblog/2012/01/stuck-in-the-middle/*. See another view on a critique of Porter's position on stuck-in-the-middle positioning here *http://bizshifts-trends.com/2014/03/12/stuck-middle-build-middle-viable-business-strategy-dilemma-bridging-gap-dead-end-scenario/* Retrieved 2 October, 2014.
10. Many articles appeared in 2013–14 when it was evident that Tata Nano was failing. Read, for instance, *http://online.wsj.com/news/articles/SB10001424052702304520704579125312679104596* and *http://www.theguardian.com/commentisfree/2014/feb/03/tata-nano-car-cheap-poor-safety-rating* Both websites retrieved 2 October, 2014.
11. F. Vermuelen, 'The Two Questions Every Manager Must Ask,' *HBR Blog* (17 April, 2014) available at *http://blogs.hbr.org/2014/04/the-two-questions-every-manager-must-ask/*. Retrieved 2 October, 2014.
12. J.D. Hunger and T.L. Wheelen,*Strategic Management* (Reading, Mass.: Addison Wesley, 1999): 121.
13. Z. Rahman and S.K. Bhattacharya,'Sources of First-Mover Advantages in Emerging Markets – an Indian perspective,'*European Business Review,* 15, no. 6 (2003): 359–69.
14. P. Kotler, *Marketing Management*, (New Delhi: Prentice-Hall of India, 1999): 231–47.
15. T. L. Wheelen and J. D. Hunger, *Strategic Management and Business Policy,* 10th ed. (Upper Saddle River, NJ: Prentice Hall, 2006).
16. M.A. Carpenter and W.G. Sanders, *Strategic Management: A Dynamic Perspective* (Upper Saddle River, NJ: Prentice Hall, 2007): 142–44 and C.W.L. Hill and G.R. Jones,*Strategic Management: An Integrated Approach* (Boston: Houghton Mifflin, 2007): 201–04.
17. Website of Board of Industrial and Financial Reconstruction at *http://www.bifr.nic.in/geninfo.htm* Retrieved 24 June, 2007.
18. Website of India Brand Equity Foundation at *http://www.ibef.org/* Retrieved 3 October, 2014.
19. Whirlpool Corporation site at *http://www.whirlpoolcorp.com/*; Whirlpool India site at: *http://www.whirlpoolindia.com/*; Whirlpool India *Annual Report 2013-2014* at: *http://www.whirlpoolindia.com/PDF/whirlpool_annual_report_2013-14.pdf*; 'Whirlpool Freezes Expansion Plans Amid Poor Demand' at *http://articles.economictimes.indiatimes.com/2014-04-10/news/49032030_1_whirlpool-india-shantanu-dasgupta-lg-india*; Interview of ShantanuDasgupta, Vice President (Corporate Affairs and Strategy) South Asia, Whirlpool India at: *http://www.impactonnet.com/How-whirlpool-taps-consumers#sthash.dIIl-pHfI.dpuf*; 'Whirlpool Eyes Rs 3,700 Crore Turnover this Fiscal' at http://www.business-standard.com/article/companies/whirlpool-eyes-rs-3-700-crore-turnover-this-fiscal-114061800403_1.html *http://www.business-standard.com/article/companies/whirlpool-eyes-rs-3-700-crore-turnover-this-fiscal-114061800403_1.html*. All websites retrieved 6 December, 2014.

8

CHAPTER

Methods for Pursuing Strategies

Learning Objectives

After reading this chapter you should be able to:

LO 1 Appreciate how leveraging of resources, knowledge, technology, partnerships, and sustainability can take place for pursuing strategies

LO 2 Explain strategic alliances and joint ventures as methods for pursuing strategies

LO 3 Describe mergers and acquisition as methods for pursuing strategies

LO 4 Demonstrate how strategic outsourcing can help organisations pursue strategies

LO 5 Express the ways and means through which digitalisation can enable organisations pursue strategies

LO 6 Recognise the manner in which sustainability could be integrated into strategies

Chapter Outline

Preview Case

LEVERAGING FOR RENEWAL AND GROWTH: MAHINDRA GROUP*

The corporate journey of the Mahindra Group started in 1945, when one of the two brothers K.C. Mahindra—the other being J.C. Mahindra—was on a visit to the US. Both brothers were professionals working with Tata Steel and Martin Burns, respectively. K.C. Mahindra visualised manufacturing jeeps for the rugged Indian roads. A franchisee for assembling Willys jeep was set up as Mahindra & Mohammad in association with Malik Ghulam Mohammad who later became a finance minister in post-independence Pakistan.

In 1948, Mahindra & Mahindra came into being. Keshub Mahindra is the Chairman of the Group and Anand G. Mahindra is the managing director at present. The first diversification came in 1953, when Otis Elevator (India) was formed. In 1956, the shares of Mahindra Group were listed on the Bombay Stock Exchange (BSE).

The decade of 1953–63 saw diversification mainly through collaborations and joint ventures with foreign companies. The Group entered varnishes and resins, machine tools, sintered products, alloy and special steel, and finally tractors in 1963. Tractors remain a core business at the Mahindra Group and it is a market leader in the industry and a global player now.

In 1965, came a major thrust into automobile industry with the commencement of production of light commercial vehicle. The first international foray in the form of exports of utility vehicles and spare parts started in 1969, making it made the first attempt at geographical diversification for the Group.

The next two decades till 1985 were interspersed with strategic actions aimed at expansion in its mainline business of tractors. A major diversification occurred in 1986, with the Group entering the information technology (IT) sector. The milestone of India's second liberalisation, in 1991, coincided with the Mahindra Group diversifying into financial services.

A reorganisation exercise was carried out in 1994, to create six strategic business units (SBUs): automotive, farm equipment, infrastructure, trade and financial services, IT, and Systech (systems and technologies). The next 5 years, till the dawn of 2000, were marked by several related and unrelated diversification moves into realty and infrastructure, passenger cars, holiday resorts, consultancy, and education. The Group focused on having independent presidents of strategic business units who would focus on their line of business.

By 2001, the Mahindra Group was not really in a good shape financially with revenues of Rs 4352 crore, net profit of Rs 120 crore, and return on capital employed at 6.9 per cent. That made it embark on a financial reengineering plan, codenamed, Operation Blue Chip involving debt restructuring and defining the financial criteria that each business in the Group had to meet.

The post-2001 period saw the Group focusing on internationalisation through mergers and acquisitions and joint ventures. The Group has been operating in several markets around the world in Europe, Africa, South America, South Asia, South-East Asia and West Asia. Its earlier experience of having a joint venture with Ford was not pleasant as the car it launched failed to make an impact. But the Group learned enough by the disaster to make a successful product, Scorpio.

The Mahindra Group today is 70-year old, widely diversified US$ 17 billion-group with 118 subsidiaries, 7 joint ventures, and 14 associate companies as of 2014. The gross revenue for year ending March 2014 was Rs. 78,736 crore, profit before tax was Rs. 5,502 crore, and net profit at Rs. 4,667 crore. It businesses span a wide range of sectors, industries, and markets including trade and financial services, automotive technology, information technology, infrastructure development, and defence systems. Yet, tractors and utility vehicles of its automotive and farm equipment are its core businesses.

The Mahindra Group has a group strategy office that acts as the internal consulting practice responsible for brand development and strategy development support to the group executive board and promotion of best practices and collaboration across the group companies. Implementation of strategies is done through three 'war rooms': operations war room looks at the half-year performance of the company; strategy war room where business teams sit together and debate strategy, and the budget war room looks at the implementation of the strategy. The new corporate brand, Mahindra Rise, is aimed at integrating the various companies in the group through grant of autonomy and independence of corporate action as well as reaping the advantages of synergy across the group. The guiding philosophy of Mahindra Rise rests on three principles of accepting no limits, thinking innovatively, and driving positive change in the life of others.

Over the years, the Mahindra Group looked at niche segments to build businesses adopting what could be called as 'segmented strategy' and has now entered into defence and renewable energy sectors. The multiple lines of businesses—auto, technology, hospitality, retail, defence and aerospace, and steel—are managed by autonomous presidents. Over the past 7 years, the Group has made some 50 acquisitions worth US$5 billion the more prominent ones being Satyam Computers and South Korean automaker Ssangyong. The group is relying on defence, retail, aerospace, and renewable energy for future growth. The logic behind some of the diversification may not be apparent—at least in the short-run—but Anand Mahindra, managing director (MD), in an interview to a business magazine, defended the strategic posture by saying: 'We increasingly want to be in B2C (business to consumer) businesses, because it's my belief the biggest legacy you can leave behind is a brand. If you leave behind a solid umbrella brand, there is nothing better than bequeathing that to future generations and managers'.[1]

Organisations such as the Mahindra Group go through different phases in their journey of survival, profitability, and growth. Several strategies are formulated designed to make the organisation sustainable through ups and downs that inevitably occur as the business environment changes. Strategies are implemented at Mahindra Group through the methods of strategic alliances and joint ventures and mergers and acquisitions with foreign and domestic partners. While doing so the Mahindra Group leverages its resources and capabilities and builds upon its partnerships.

This chapter deals with the several methods that organisations might use for pursuing their corporate and business strategies. Once an organisation has established its strategic intent and the bases for its corporate and competitive actions, it can turn to a few or several methods to pursue its strategies. The range of methods of pursuing strategies is very wide. We would have to be selective in choosing the major ones so that we can have an understanding of what are the means by which strategies can be pursued. Basic to the methods is the idea behind using them. This is the idea of leveraging. When an organisation chooses a method to pursue expansion strategy it might opt to leverage its resources, knowledge, technology, partnerships or sustainability to do so.

8.1 LEVERAGING FOR PURSUING STRATEGIES LO 1

An anecdote credited to Archimedes, the Greek mathematician, is his claim: ‘Give me a lever long enough and a fulcrum on which to place it, and I shall move the world.’ What he was referring to was the principle of leverage: you can lift a heavy object with a lever more easily than you could without its help. In practical terms we also say leverage is ‘to do more with less’. If you have limited pocket money to spend in a month and you can make it last longer by some proper means, then you are leveraging your money. Leverage is also a popular management term meaning ‘a strategic or tactical advantage’. As a verb ‘to leverage’ means making use of an advantage. You surely must have come across leverage (or, gearing) in your finance course. There it meant using borrowed funds to buy assets such that the income from those assets would be more than the cost of your borrowing, yielding net profit on funds that actually do not belong to you.In strategic management, we use the term leverage to mean using something to enhance strategic advantage to the organisation.

There could be several areas where organisations can leverage to pursue their strategies. We list and explain briefly here five such areas to give you an idea of what possibilities are available to pursue strategies:

1. *Leveraging resources:* When organisations use their resources in innovative ways by combining existing resources, or combining existing with new resources, to pursue their strategies they are leveraging resources. This is necessary as resources are scarce and valuable. They have to be put to use in a manner that organisations can do more with less resources; limited resource base could be multiplied by creative approaches through leveraging. Expansion strategies such as diversification may require investing in new businesses which would require financial resources. Small business owners may rely on physical resources to modernise their plants and equipment so that they can follow concentration strategies. A non-profit organisation (NPO) may need organisational resources such as efficient systems to adopt focussed cost leadership business strategy.
2. *Leveraging knowledge:* When organisations procure, create, store, share, disseminate, and use knowledge within to pursue their strategies, they are leveraging knowledge. Many organisations consider knowledge as an asset or capital. Knowledge is both explicit and tacit. Organisations rely on both to pursue their strategies. An expansion strategy of forward integration can be better pursued if the organisation knows how the value chain works and where it leads to. A differentiation business strategy can be followed better if the organisation knows what different bases it could differentiate upon.
3. *Leveraging technology:* When organisations make use of tools and techniques available to facilitate accomplishment of their strategies they are leveraging technology. Many organisations employ information and communications technology to adopt alternate means of marketing directly to customers thereby facilitating market development strategy. Technology derived through research and development (R & D) capabilities are used for adoption of product development strategy.
4. *Leveraging partnerships:* When organisations get into arrangements that let them share, collaborate, and cooperate with other organisations to pursue their strategies they are leveraging partnerships. Strategic alliances, joint ventures, and outsourcing partnerships are common examples of the ways organisations get together to pursue their strategies.
5. *Leveraging sustainability:* When organisations seek to add value to their strategies through initiatives to balance and integrate environmental, economic, and social objectives they are leveraging sustainability. Many strategies chosen by organisations require them to adopt sustainability-based thinking that could either extend or limit the scope of application of those strategies. For instance, sustainability concerns can limit the choice of products or enhance the scope for offering services to the customers. Sustainability concerns can determine whether it would be advisable for an organisation to go for backward integration strategy. Market preference for green products can affect the choice of an organisation to go for environmentally-friendly product development.

Leveraging by organisation may not be limited to one area; it can extend or spill over to another area. Leveraging knowledge may also include leveraging technology. Likewise, leveraging sustainability may be limited by the scope for leveraging resources. Another point to be kept in mind is that leveraging has vast scope and may not be limited to these five areas. There might be other areas where organisation leverage, for instance, many of them may leverage their reputation to launch new businesses or leverage diversity within their personnel to internationalise. These five areas, however, would seem to cover maximum scope for leveraging by organisations.

Going ahead, we would take up some major methods of pursuing strategies. As we discuss each of them, we would note that the issue of leveraging resources, knowledge, technology, partnerships, and sustainability are recurrent themes and appear in various contexts.

8.2 STRATEGIC ALLIANCES AND JOINT VENTURES LO 2

By first choice, firms try to expand by organic growth through adopting concentration strategies and relying on their own resources and capabilities. When they realise that it is better to seek the help of other organisations to accomplish their strategies, they set up collaborative relationships. Strategic alliances and joint ventures are two prominent collaborative methods employed frequently by organisations to pursue many of the corporate and business strategies. For instance, these are often used in the context of internationalisation strategies where firms seeking to internationalise seek partners in order to enter foreign markets or to set up offshore production facilities. In the Indian legal parlance, joint ventures are equity-based partnerships with strategic alliances being called contractual joint ventures. First, we will take up the discussion of strategic alliances and then joint ventures and note how organisations leverage relationships to achieve their strategies.

Strategic Alliances

Mehta and Samanta define strategic alliances as an arrangement for'cooperation between two or more independent firms involving shared control and continuing contributions by all partners for mutual benefit'.[2]

Yoshino and Rangansuggest three necessary and sufficient characteristics of strategic alliances:[3]

- Two or more firms unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance;
- The partner firms share the benefits of the alliance and control over the performance of assigned tasks—perhaps the most distinctive characteristic of alliances and the one that makes them so difficult to manage; and
- The partner firms contribute on a continuing basis in one or more key strategic areas, for example, technology, product, and so forth.

Lando Zeppei, managing partner of Booz, Allen & Hamilton, describethe process of strategic alliance as the formation of a cooperative arrangement between two or more companies where:[4]

- A common strategy is developed in unison and a win-win attitude is adopted by all parties.
- The relationship is reciprocal, with each partner prepared to share specific strengths with each other, thus lending power to the enterprise.
- A pooling of resources, investment, and risks occurs for mutual (rather than individual) gain.

Strategic alliances, by its terminology and definition, cannot be tactical. In order to be strategic, an alliance must satisfy one of these criteria:[5]

- Be critical to the success of a core business goal or objective
- Be critical to the development or maintenance of a core competency or other source of competitive advantage
- Enables blocking a competitive threat

- Creates or maintains strategic choices for the firm
- Mitigates a significant risk to the business.

Reasons for strategic alliances The primary reason why firms enter into strategic alliances is to leverage relationships to enhance their organisational capabilities and thereby gain competitive or strategic advantage. For this to happen, they continually strive to gain access to new markets and new supply sources. They also wish to become more profitable by leveraging technology and resources. When the firms find that it is not feasible to either create resources internally or to acquire them, they rely on strategic alliances to create a network of beneficial relationships.

Walters, Peters, and Dess list several reasons why strategic alliances are used:[6]

1. *Entering new markets:* A company that has a successful product or service may wish to look for new markets. Doing so on one's own capabilities may seem to be difficult. This is especially true in case a company wishes to explore foreign markets. Here it is better to enter into a partnership with a local firm in that foreign market which understands the markets better and is more culturally attuned to them. This is one of the reasons why multinational corporations (MNCs) have entered into strategic alliances with Indian firms or when Indian firms go abroad they too enter into strategic alliances with foreign partners.
2. *Reducing manufacturing costs:* Strategic alliances are used to leverage resources by pooling resources to gain economies of scale or making better utilisation of resources in order to reduce manufacturing costs. This is especially true of pro-competitive alliances where long-term relationship is developed with suppliers and buyers.
3. *Developing and diffusing technology:* Strategic alliances may be used to develop technological capability by leveraging the technical expertise of two or more firms—an act which may be difficult to perform if these firms act independently.

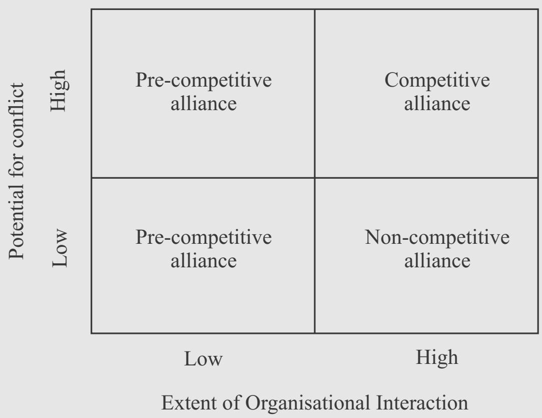
Apart from these reasons, strategic alliances are also used to accelerate product introduction and overcome legal and trade barriers expeditiously. Speed and timing are of essence in implementing strategies. Alliances may help firms to attain these. New products and services are imitated quickly by competitors. When firms enter into strategic alliances with other firms it is possible to preempt such imitation. For instance, a global firm may introduce new products in foreign markets quickly with the help of local firms. Then, some countries insist upon local participation before permitting foreign companies to enter their markets. Entry into life and general insurance markets in India has been made contingent upon local participation in which case it is imperative for strategic alliances to take place between foreign and Indian firms.

Types of strategic alliances There are a range of methods available to establish strategic alliances such as licensing, franchising, long-term sourcing, joint manufacturing, joint marketing, joint distribution and joint research, and development and management contract. To view them in a framework, we provide here the classification proposed by Yoshino and Rangan, based on two dimensions of extent of organisational interaction and potential for conflict between alliance partners.[7] This is an apt illustration of the concept of 'coopetition' where cooperation and competition co-exist. Corporate objectives are multidimensional and often mutually contradictory. Strategic partners need to take into account the extent to which interaction is necessary for the alliance to work. Additionally, the potential for conflict arising out of being competitors in the market has to be considered. When the values of these dimensions are high or low then four types of strategic alliances emerge. These are shown in Exhibit 8.1 and briefly described next:

1. *Procompetitive alliances:* (low interaction/low conflict): These are generally interindustry, vertical value-chain relationships between manufacturers and their suppliers or distributors. Such alliances offer the benefits of vertical integration without firms actually investing in resources for manufacturing inputs or distributing semi-finished or finished goods. Supplier and buyer firms entering upon long-term contracts constitute procompetitive alliances.

2. *Non-competitive alliances* (high interaction/low conflict): These are intra-industry partnerships between non-competitive firms. Such alliances can be entered upon by firms that operate in the same industry yet do not perceive each other as rivals. Their areas of activity do not coincide and they are sufficiently dissimilar to prevent feelings of competitiveness arising. Firms that have carved out distinct areas in the industry—geographically or otherwise adopt the non-competitive alliances.
3. *Competitive alliance* (high interaction/high conflict): These are partnerships that bring two rival firms in a cooperative arrangement where intense interaction is necessary. These alliances may be intra- or inter-industry. Several cases of foreign companies operating independently in India, and also entering into cooperative arrangement with local rival companies for specific purposes, have taken the competitive alliances route.
4. *Precompetitive alliance*(low interaction/high conflict): These partnerships bring two firms from different, often unrelated industries to work on well-defined activities such as new technology development, new product development, or creating awareness about new products or ideas for acceptance among the potential customers. Joint research and development activities and mass awareness campaigns are examples of precompetitive alliance activities.

Exhibit 8.1 Types of Strategic Alliances



Source: Adapted from M.Y. Yoshino and S. Rangan. *Strategic Alliances: An Entrepreneurial Approach to Globalization* (Boston: Harvard Business School Press, 1995): 19.

Managing strategic alliances Strategic alliance is a difficult method for pursuing strategies. Yet, like most things difficult to manage, the ultimate rewards are enticing. Walters, Peters and Dess recommend four principles to manage alliances successfully:[8]

1. Clearly define a strategy and assign responsibilities
2. Phase in the relationship between the partners
3. Blend the cultures of the partners
4. Provide for an exit strategy

A good start to a strategic alliance is to clearly define the strategy to be adopted. This strategy should be consistent with the corporate strategies of the partners. The operational responsibilities of the partners also need to be defined clearly. A well-written alliance agreement can serve these purposes well. Yet trust and commitment cannot be written in a legal document. Trust is a necessary prerequisite for any collaborative alliance to work and to be sustained. Then there has to be a continual and consistent commitment to shared goals.

Phasing in the relationship means giving adequate time and opportunity to the partners to know each other well. Once two firms have worked in a partnership successfully it is easier for them to work in subsequent projects.

When two unknown firms come together in a partnership it is absolutely important to blend their cultures. Looked at from a realistic perspective, a partnership between two firms is actually a joint effort of the people involved. The alliance document or a memorandum of understanding (MoU) formalises the agreement that people reach among themselves. The working of a partnership is also not merely implementing the clauses of the alliance agreement; it is the understanding between people that makes any alliance work.

In addition, it is prudent to provide for an exit clause in case the alliance unfortunately does not work or in case where objectives are achieved.

Pitfalls in strategic alliances Most strategic alliances fail to yield the desired or planned benefits. There are several pitfalls in making strategic alliances work. Lack of trust and commitment, perceived misunderstandings among partners, conflicting goals and interests, inadequate preparation for entering into partnership, hasty implementation of plans, and focussing on controlling the relationship rather than managing it for mutual benefit are some of the dangers of strategic alliances. Apart from these external conditions—which are dynamic by nature—many sometimes alter the equations between partners making the strategic alliances unworkable or unsustainable. Overall, strategic alliance is a demanding method in terms of the leadership and human relations skills of managers involved. When unsuccessful, they can be devastating for the parties involved; when successful they can be intensely rewarding and motivating. All in all, strategic alliances are a viable method to adopt for achieving growth and expansion strategies like diversification and internationalisation as well as concentration strategies such as market and product development.

Strategic alliances in the Indian context Little academic research has been carried out on strategic alliance in the Indian context.[9] There is, however, ample information available from the corporate world on strategic alliances by Indian organisations that can be accessed in the popular press and online media. Among the few studies available, oneresearch study on strategic alliances in the top 100 Indian companies reported that nearly all companies have some kind of strategic alliance, depending on their requirements, with Indian and foreign companies.These companies entered into strategic alliances for growth and expansion, diversification, and access to various assets.[10]

Liberalisation has led to a situation where Indian companies have had to look for growth opportunities. In order to capitalise on the opportunities, firms could either depend on their own resources or look for cooperative partnerships outside. Since developing own resources is a time consuming and costly process, firms have often looked to outside help. Apart from the options of mergers and acquisition and joint ventures,strategic alliances offer a growth route in which merging one's entity, acquiring or being acquired or creating a joint venture may not be required. These reasons make strategic alliances an attractive proposition for Indian organisations.

Apart from liberalisation, globalisation has spurred the growth of strategic alliances. Typically, Indian firms have shortcomings that can be offset by relying on strategic alliances. Global partners can help local firms by developing world-class quality consciousness, creating adherence to international quality standards, providing access to state-of-the-art technology, gaining entry to world-wide mass markets, and making available funds for expansion. Besides these, other reasons which lead to strategic alliances are the availability of professional management expertise, international reputation, global brand name and brand equity, and confidence to gain a foothold in the international markets. No wonder, newly liberalised industries have a proliferation of strategic alliances as is the case with the life insurance industry in India where a majority of firms have such alliances with foreign partners.[11]

Here are several examples from the various sectors of the Indian economy related to strategic alliances.

- NEC India is a network, communications, and information technology (IT) company. It set up a strategic alliance with Cadenworth for private network solutions such as telephone systems. Cadenworth is a solution based distributor in technology products. NEC wanted to establish its presence in enterprise segment particularly in tier-2 markets in India where Cadenworth has distribution reach. This is an example of a procompetitive type of alliance where NEC extended it value chain to a market segment where it did not have a presence.
- Bank of India entered into a strategic alliance with the Union Bank of India and Infrastructure Development Finance Company for loan syndication, international business, cash management, cheque collection and training. Another strategic alliance of two banks, Industrial Development Bank of India (IDBI) and Andhra Bank aims to increase their automated teller machine (ATM) reach so that the customers of both banks are able to use the services currently being offered such as cash withdrawal and balance enquiry. These are non-competitive alliances between organisations in the same industry who try to complement each other rather than compete.
- Service sector in India has seen several strategic alliances. East India Hotels entered into a strategic alliance with Hilton International for the group's Trident Hotels. East India Hotels will manage, operate, and undertake domestic marketing of all its hotels, while Hilton will be responsible for international marketing, promotion, and reservations through the Hilton International network. Both East India and Hilton are in the same hotel industry so this makes their strategic alliance as competitive alliance.
- National Institute for Information Technology (NIIT) and Microsoft has a long-running strategic alliance. Microsoft offers technology such as cloud computing and certification while NIIT takes up training of IT professionals. There are complementary areas of benefit for both partners. Microsoft gets entry into the vast Indian market for technology and certification products and NIIT gets the backing of an IT global technology leader and credibility for certification. This could be a precompetitive type of strategic alliance.
- When the Self Employed Women's Association (SEWA), the renowned non-governmental organisation (NGO) came together with the Bank of Baroda, they embarked on the Bank of Baroda and SEWA Partnership for reaching the women micro-entrepreneurs. This alliance extends across two different types of organisation operating in two diverse industries making this a precompetitive strategic alliance.

The possibilities arising from successful strategic alliances are many. Often, one successful experience leads to another. Thus, organisations learn to work together to their mutual benefit. Strategic alliances offer the potential to be used as an effective method for pursuing strategies by organisations.

Joint Ventures

A joint venture could be considered as the new entity resulting from a long-term contractual agreement between two or more parties to undertake mutually beneficial economic activities, exercise joint control, contribute equity, and share in the profits or losses of the entity. It could be formed as a partnership, a corporation or any other form of organisation depending on the intentions of parties involved.

The technical definition of joint venture by the Reserve Bank of India (RBI) is: 'a foreign concern formed, registered or incorporated in accordance with the laws and regulations of the host country in which the Indian party makes a direct investment, whether such investment amounts to a majority or minority shareholding'.[12] It must be noted that, in the legal interpretation of the term 'joint venture' in Indian context, strategic alliances are considered as contractual joint ventures distinguishing them between equity joint ventures. Then, joint ventures are primarily viewed as meant for Indian firms entering foreign markets.[13]

Conditions for joint ventures Joint ventures may be useful to gain access to new business mainly under four conditions:[14]

1. When an activity is uneconomical for an organisation to do alone.
2. When the risk of business has to be shared and, therefore, is reduced for the participating firms.
3. When the distinctive competence of two or more organisations can be brought together.
4. When setting up an organisation requires surmounting hurdles such as import quotas, tariffs, nationalistic-political interests, and cultural road blocks.

From the earlier conditions, it can be seen that joint ventures are an effective method for pursuing expansion strategies when development costs have to be shared, risk spread out, and expertise combined to make effective use of resources.

Business Today identified five triggers for a joint venture:[15]

- *Technology:* The foreign partner in the joint venture can bring in high-class technology while the Indian partner has a good understanding of the local market. Telecommunications and automobiles industries are examples where this trigger is seen to have played a major role for setting up joint ventures in India or abroad.
- *Geography:* This could be a case where a foreign player has a presence in many key global markets and addition of India is seen as necessary to the existing market coverage. Insurance industry is a relevant example where large players like Prudential and Standard Life are large global players. For the Indian partner, it is a big opportunity to participate in the joint venture.
- *Regulation:* This is normally a case when a highly regulated sector opens up. Insurance, which for a long time was closed to foreign investment, today allows up to 26 per cent equity participation. This has seen a flow of foreign companies such as Allianz SE and Prudential plc entering into joint ventures Indian companies like Bajaj Finserv with ICICI Bank respectively.
- *Sharing of risk and capital:* This includes capital-intensive sectors like heavy-engineering that also require technological expertise. Here, both the partners look for a scenario where risks can be equally shared.
- *Intellectual exchange:* Here, a sector like the legal business could serve as an example. Though there is no clear-cut law on the entry of foreign law firms, the intellectual advantage at both ends is hard to ignore.

Types of joint ventures Joint ventures are possible within industries, across industries, and across countries. But they are especially useful for entering international markets. Frequently, Indian firms will enter foreign market in a joint venture with a foreign company. A foreign company entering India would also enter into a joint venture with an Indian company. From the point of view of Indian organisations, the following types of joint ventures are possible:

1. Between two Indian organisations in one industry (e.g. a joint venture between National Thermal Power Corporation (NTPC) Ltd. and the Indian Railways (IR) for setting up a thermal power plant to meet the requirements of the rail network across the country.)
2. Between two Indian organisations across different industries (e.g. Action Aid India and Tata Institute of Social Sciences (TISS) in a joint venture offering degree courses for rural communities in India).
3. Between an Indian organisation and a foreign organisation in India (e.g. DLF Ltd. forging a 50:50 joint venture with Nakheel, a large property developer of the UAE, for setting up integrated townships in India).
4. Between an Indian organisation and a foreign organisation in that foreign country (e.g. Kirloskar Brothers Ltd. having a joint venture with Sigmund Pulsometer Pumps (SPP Pumps Ltd., UK, for catering to the European Union (EU) market).

5. Between an Indian organisation and a foreign organisation in a third country (e.g. Apollo Tyres of India and Continental AG of Germany setting up a tyre manufacturing joint venture in Malaysia).
6. Between government and private sector organisations in the form of public-private partnerships (e.g. equity participation and modernisation of airports in India through partnership between Airports Authority of India and private companies such as GMR Infrastructure. Exhibit 8.2provides more insight about this popular form of joint ventures in India.

Exhibit 8.2 Public-Private Partnerships in India

Public-private partnership (PPP) is a long-term contractual joint venture agreement between the government and one or more private sector companies to provide funding and expertise for infrastructure and public services.

Public-private partnerships have been used in many other countries around the world such as Australia, Brazil, Philippines, and United Kingdom with varying degree of success. In India, they have become increasingly popular owing to the inability of the government to satisfy the requirements of infrastructure financing and building and lack of efficiency in service provision. Public-private partnership is meant to bring several benefits including providing financing and expertise in provisioning of public services and building infrastructure.

In India, PPP are a popular mode of financing and operating projects in airports, ports, power, railways, roads, telecommunications, and other public services both at the Central and State levels. India is the largest market for PPP projects in the world. There are several types of business models used for PPP projects in India including build-operate-transfer models based on user-fee and annuity, turnkey projects that include designing and building and performance-based maintenance and management contracts.

There are several companies both big and small that have adopted PPPs as a method to pursue their strategies. Among them are Larsen & Toubro (L&T) Transportation and Infrastructure, Grandhi Mallikarjun Rao (GMR) Infrastructure, IVRCL Infrastructure, Sadhbav Engineering, DS Constructions, and MSK Projects (India) now called Welspun Projects Ltd.

Public-private partnerships have had a mixed record of failures and successes in India. For instance, in building and operating airport infrastructure many PPP projects have been quite successful while in some case such as Delhi Metro project it has failed. There are many reasons such ill-conceived projects, over-ambitious bidder, long duration, cost escalation, lack of financing sources, paucity of information, lack of expertise, and perceived cronyism in award of projects.

Sources: M.S. Priya and P. Jesintha,'Public Private Partnership in India,' *Journal of Management and Science,* 1, no. 1 (2011); *Public-private partnerships in India* Ministry of Finance, Government of India website at *http://www.pppin-india.com/*; *FICCI and E&Y Report on Accelerating PPP in India, 2012* at*http://www.ey.com/Publication/vwLUAssets/Accelerating_PPP_in_India/$FILE/Accelerating%20PPP%20in%20India%20-%20FINAL(Secured).pdf*; 'India Airports: Public Private Partnership Model is Transformational but Key Lessons to be Learned,' Centre for Aviation available at *http://centreforaviation.com/analysis/india-airports-public-private-partnership-model-is-transformational-but-key-lessons-to-be-learned-176264*. All website retrieved 7 October, 2014.

Benefits and drawbacks in joint ventures The major benefits that are likely to accrue from joint ventures include: minimising risk, reducing an individual company's investment, creating access to foreign technology, broad-based equity participation, access to governmental and political support, and entering new fields of business and synergistic advantages. The disadvantages that may arise in joint ventures are: problems in equity participation, foreign exchange regulations, lack of proper coordination among participating firms, cultural and behavioural differences, and the possibility of conflict among the partners.

Indian organisations need to be on the guard as there is a high probability of the joint ventures not working to their advantage. An analysis of the reasons by *Business Today*, why joint ventures could fail leads to the following conclusions:[16]

- *Change of strategy:* India could cease to be of interest to a foreign partner. This happened in the case of Bell Canada when the company decided that Asia as a market was not strategic. Following this decision, it sold its stake in Tata Cellular to the Indian promoters.
- *Regulatory changes:* Often, this is beyond the control of the partners. This could work against the joint venture when either the limit on foreign direct investment (FDI) has not been hiked in time or if it has been reduced. Disallowing of FDI in multi-brand retail has not gone down too well with the foreign partners.
- *Success of joint venture:* Ironically, if the joint venture is doing too well, one of the partners becomes very keen on increasing its holding which is not acceptable to the other partner. Suddenly, a 50:50 partnership becomes hard to manage.
- *Having partners hampers growth:* Sometimes having a partner can hamper growth prospects. In the case of Tata Telecom, the Tatas decided to sell their holding to the other partner, Avaya Inc. It worked well for both the partners who felt that they would be better off on their own.
- *Lack of transparency:* It is very important that the ground rules are laid down well in advance. If information is withheld, it can cause considerable levels of mistrust among partners. This can have very serious consequences. The break-up of the Hutchison-Essar joint venture is one where the lack of transparency has been one of the key reasons for the joint venture coming apart.

Joint ventures in the Indian context Joint ventures offer the advantages of achieving objectives mutually by the participating firms.Eliminating, controlling, or reducing competition may be of strategic importance and can be brought about through joint ventures. Increasing the market share can also be achieved. Diversification strategies may be adopted by the participating firms if a joint venture is planned across different industries. If technology is a critical variable in strategy, then joint ventures with foreign companies can be feasible. If legal and regulatory hurdles come in the way of external expansion, they could be subverted through the creation of a joint venture of combining with a foreign firm in that foreign country or in a third country. Environmental threats within the country or opportunities abroad may cause firms to undertake joint ventures.

A special mention need be made of joint ventures abroad by Indian companies as they have become significant in recent years. Sometimes, these take the form of joint enterprises with firms from other countries, which along with Indian firms set up projects in third countries. Joint ventures offer a viable alternative for organisations interested in external expansion strategies. Strategic advantages are important for joint ventures to be set up and sustained. Consider the following examples of Indian and foreign organisation coming together in joint ventures:

- Indian auto components manufacturer, Minda Industries, set up 60:40 joint venture with Japan's Panasonic to make automotive batteries in India. The joint venture will supply batteries to original equipment manufacturers, and for the two-wheeler and passenger vehicles segments.
- Catamaran Ventures, Narayana Murthy's private investment firm set up a 51:49 e-commerce joint venture with the online retailer, Amazon. The purpose is to help offline sellers and small and medium businesses by training them in online tools so that they can improve the customer base online as well as improve footfalls and revenues.
- Trent Hypermarket Ltd., a unit of Tata group and operator of the Star Bazaar retail outlets, upgraded its previous franchising arrangement to 50:50 joint venture with Tesco a major global retailer.

Joint venture is a risky, yet a rewarding method to pursue strategies provided the partners share strategic interests from the outset and work diligently to make the partnership work.

8.3 MERGERS AND ACQUISITIONS LO 3

Mergers and acquisitions (M&A or takeovers) essentially involve the external approach to expansion. You will frequently find mergers being mentioned with acquisitions in academic as well as popular management literature and M&A being used as the combined acronym. A merger is a combination (other terms used: amalgamation, consolidation, or integration) of two or more organisations in which one acquires the assets and liabilities of the other in exchange for shares or cash; or both the organisations are dissolved and assets and liabilities are combined and new stock is issued. For the organisation which acquires another, it is an acquisition. For the organisation which is acquired, it is a merger. If both organisations dissolve their identity to create a new organisation, it is consolidation. You need not be awed by the use of so many terms and can safely use them synonymously.

Mergers take place when the objectives of the buyer firm and the seller firm are matched to a large extent; acquisitions or takeovers usually are based on the strong motivation of the buyer firm to acquire.[17] Takeover is a common way for acquisition and happens when one firm acquires ownership and control over another firm.[18] Takeovers are frequently classified as hostile takeovers (which are against the wishes of the acquired firm) and friendly takeovers (by mutual consent in which case they could also be described as a merger).

Mergers carried out in reverse are known as demergers or spin-offs. 'Demerger involves spinning off 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 the original company.'[19]

Types of mergers and acquisitions Mergers and acquisitions may be of different types and can be classified as follows:

1. *Horizontal mergers* take place when there is a combination of two or more organisations in the same business, or of organisations, engaged in certain aspects of the production or marketing processes. For 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* take place when there is a combination of two or more organisations, not necessarily in the same business, which create complementarities 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 (supplier) or with a chain of shoe retail stores (distributor).
3. *Concentric mergers* take place when there is a combination of two or more organisations related to each other either in terms of customers functions, customer groups, or alternative technologies used. Thus, a footwear company combines with a hosiery firm making socks or another specialty footwear company, or with a leather goods company making purses, handbags, etc.
4. *Conglomerate mergers* take place when there is a combination of two or more organisations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used, e.g. a footwear company combining with a pharmaceutical firm.

Reasons for mergers and acquisitions For a merger to take place, two organisations have to act. One is the buyer organisation and the other is the seller. Both these types of organisations have a set of reasons on the basis of which they merge. Glueck has identified the reasons as follows:[20]

Why the buyer wishes to merge:

1. To increase the value of the organisation's stock.
2. To increase the growth rate and make a good investment.
3. To improve stability of earning and sales.
4. To balance, complete, or diversify product line.
5. To reduce competition.

6. To acquire a needed resources quickly.
7. To avail tax concessions and benefits.
8. To take advantages of synergy.

Why the seller wishes to merge:

1. To increase the value of the owner's stock and investment.
2. To increase the growth rate.
3. To acquire resources to stabilise operations.
4. To benefit from tax legislation.
5. To deal with top management succession problem.

Important issues in mergers and acquisitions There are many issues of importance that have to be dealt with in mergers. These issues involve expertise in special areas such as accounting, finance, and legal matters and negotiations. Yet you should have some idea about them. In real life, mergers and acquisitions are handled by experts of which are usually consultancy and legal firms.

Next, we shall discuss some strategic, financial, managerial, and legal issues involved in mergers:

1. *Strategic issues* relate to the commonality of strategic interests between the buyer and seller firms. It is important to consider the extent to which a merger may lead to positive synergistic effects. For this, the strategic advantages and distinctive competencies of the merging firms have to be analysed. Besides these, there has to be a match between the objectives of the firms. A merger should ideally lead to the generation of strengths that would help the post-merger organisation to achieve its objectives in a better manner. Another strategic issue is of a cultural match between the merging organisations in the absence of which the chances of failure are heightened.
2. *Financial issues* are of three types valuation of the business and shares of the target firm, sources of financing for mergers, and taxation matters after merger. The first issue of valuation of the business and shares of the target firm is a detailed and comprehensive process that should take into account a range of factors. The second financial issue is of the sources of financing for acquiring firms. There are several sources of funds that range from the acquiring companies' own funds or borrowed funds raised through the issue of debentures, bonds, deposits, external commercial borrowings, global depository receipts, loans from Central or State financial institutions, or rehabilitation finance provided to sick industrial companies. The third issue is of the taxation matters that are dealt with under the relevant provisions of the Income Tax Act, 1961, related to various technical aspects such as the carrying forward or set-off of losses and unabsorbed depreciation, capital gains tax, and amortisation of expenses.
3. *Managerial issues* in mergers relate to the problems of managing firms after the merger has taken place. It is important to note that the perception of how the management will take place after merger also matters and affects the process of the merger itself. Usually, mergers are followed by changes in staff, specially chief executives and top managers. If there is an assurance that the merger will lead to a status quo, or that 'professional management' would be adopted, then the merger may take place smoothly. On the contrary, if the merger is threatening, it results in its opposition by well-entrenched groups of managers making the process of merger difficult. Quite often merger attempts are foiled because of the managerial issues. This happens because the post-merger period poses uncertainty to the managers of the merging companies. They feel insecure about their job, status within the company, and their earnings and promotion. Feeling threatened by the impending changes, the existing managers oppose change leading to low morale and productivity and often resulting in exodus of managers.
4. *Legal issues in mergers* relate to the provisions made in law for the purpose of mergers. The main regulatory agencies governing M&A in India are the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), Foreign Investment Promotion Board (FIPB), and the Competition Com-

mission of India (CCI). The Companies Act, 2013, provides for the manner in which mergers, demergers, amalgamations and/or arrangements may take place in accordance with an Indian court sanctioned scheme. Other major legal provisions include Foreign Exchange Management Act (FEMA), 1999; SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, known as the Takeover Code; Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009; Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003; The Competition Act, 2002; and the Income Tax Act, 1961.[21]

How do mergers and acquisitions take place? Certain guidelines can be used for M&As to take place systematically. For instance, a six-step procedure recommended for an acquisition includes the following:[22]

1. Spell out the objective
2. Indicate how the objective would be achieved
3. Assess managerial quality
4. Check the compatibility of business styles
5. Anticipate and solve problems early
6. Treat people with dignity and concern

It is interesting to know how the much-talked about M&As take place in reality.[23] First, the motivation for takeover is defined, albeit informally. The reasons for takeovers are many: quick growth, diversification, establishing oneself as an industrialist, reducing competition, increasing the market share, or even creating goodwill (if sick units are taken over for rehabilitation). Besides these 'rational' reasons, there might be others which are purely irrational such as greed or lust for becoming rich, to accumulate wealth, to build an 'industrial empire', or to humble competitors and business opponents.

The second step in a takeover is to arrange for financing. We referred to the different modes of financing of mergers and acquisitions earlier in this section. Apart from these, there are leveraged buyouts (LBOs) or bootstrap acquisitions which involve raising funds by pledging the assets of the firm to be taken over.

After finances have been arranged, a move—usually discreet—is made through a trusted intermediary, who is an accountant, a lawyer, or a businessman. Development and merchant bankers too act as intermediaries. Negotiations are made keeping in view a number of factors like the valuation of assets, business goodwill, market opportunities, growth potential, etc. and a final arrangement made by fixing the price to be paid for shares transfer. In this manner, a *friendly takeover* is consummated. Some of the classic friendly takeovers in India are of Tata Tea's takeover of Consolidated Coffee (a grower of coffee beans) and Asian Coffee (a processor), Tata Steel's foreign acquisition of the Anglo-Dutch steel company Corus, and the takeover-merger of Brooke Bond India Ltd. with Lipton India Ltd., resulting in the formation of a new company Brooke Bond Lipton India Ltd.

Hostile takeovers (where a takeover is resisted, or expected to be opposed, by the existing management or professionals) follow a different route. Here the shares are picked from the open markets and controlling interests obtained. With the tacit help of other majority shareholders (usually one or more of the financial institutions), a bid is made to enter the company's board and to acquire control. Resistance is offered by the existing management by refusing to register the transfer of shares, or to forestall the moves by deals through court orders and injunctions. It is believed that political support matters a lot in the measure of success achieved in a bid to takeover a firm. Some of the classic hostile takeovers or attempts in India have been Swaraj Paul's attempt to takeover Escorts and DCM, Larsen & Toubro's (L&T's) attempt to takeover Reliance Industries, NEPC bid for Modiluft, Sterlite Industries' bid for Indian Aluminium, Renaissance Estates (represented by Abhishek Dalmia) for GESCO Corporation and the hostile bid for VST Industries by Bright Star Investments.

Pros and cons of mergers and acquisitions Arguments for and against are often put forth related to takeovers. One school of thought believes that takeovers are necessary and desirable (at least, not bad) because they ensure management accountability, offer easy growth opportunities, create mobility of resources, avoid gestation periods and hurdles involved in new projects, offer a chance to sick units to survive, and open up alternatives for selective divestment. Besides, they also help firms increase sales revenue and enlarge their product and brand portfolios, venture into new businesses and markets, increase market share, and decrease competition by consolidation of rival companies.

The opponents of takeovers argue that professionalism gets replaced by money power, that takeovers do not create any real assets for society and are detrimental to the national economy, the interest of minority shareholders is not protected, and avoidable stresses and strains are created in the companies taken over or exposed to the threat of takeovers. Besides, takeovers reduce competition and thereby help monopolistic or oligopolistic tendencies among firms, increase of price, job losses for employees, difficulties in cultural integration of the merging firms, and dealing with the hidden liabilities of target firms.

The flip side of M&A is that a majority of them do not succeed. In fact, in some cases instead of adding value they prove to detrimental to the organisations involved in M& A. There are several reasons for M&A failure; among them are not doing the homework, cultural mismatch, over-valuation, lack of integration, and lack of effective follow-up.[24] Although M&A success remains elusive for many companies, one thing is clear—a successful corporate development process must allow a company to avoid less promising opportunities, find the best opportunities, and transform those into value-creating propositions.

Mergers and acquisitions in Indian context Mergers and acquisitionsare considered to be the most widely used method for pursuing strategies of growth and expansion in India. The real impetus for M&As arose after the liberalisation measures of 1991. The Monopolies and Restrictive Trade Practices (MRTP) Act was amended and no prior government permission was required to carry out M&As. The SEBI introduced the Substantial Acquisitions of Shares and Takeovers Regulations, 1994, (popularly known as the Takeover Code). The takeover code is a set of regulations which determines whether or not an acquisition of shares in a company amounts to an attempt to takeover. It was designed to ensure that the takeover process is transparent and done in a fair manner. Another committee set up in 1996, known as the Bhagwati Committee, went into the issue of rationalising the takeover code.[25] The Companies Act, 2013, has eased the process of mergers by making them less time-consuming and providing more flexibility. It has introduced the concepts of fast track mergers, reverse mergers, cross-border mergers.[26]

Mergers and acquisitions of different types are quite popular in the Indian corporate sector as they are perceived to be a handy route to growth. Statistics related to the M&A in India are quite impressive. Both outbound (Indian firms taking over foreign firms) and inbound (foreign companies taking over Indian companies) M&A have proliferated in recent years. While M&A such as Tata-Corus, Vodafone-Hutchison Essar and Hindalco-Novelis make news due to the huge size of M&A deals involved there are several M&A activities going on continually. While Indian firms are quite active in the global arena, India also remains a popular target of foreign firms hunting for good M&A deals.[27]

There is noticeable interest in academic research on M&A in India. For instance, there are doctoral studies on the corporate takeovers in India[28], surveys on M&A causes and impact[29], post-merger performance of companies[30], sector-specific studies on M&A in India[31], regional studies on M&A in South Asia including India[32], and takeover selection process in India[33].

Takeovers in India—though quite a few of them have been controversial in the past and, consequently, have faced adverse publicity—are expected to be a viable method for organisations which choose to pursue the external expansion strategy. In fact, where the reasons for takeover are rational—making it a part of the investment portfolio, using it to consolidate capacities, taking assistance in diversification and integration, and creating synergistic effects—there, a takeover is a good proposition. Successful companies continue to use M&As as an integral part of their expansion, integration, diversification, and internationalisation strategies.

8.4 STRATEGIC OUTSOURCING

LO 4

The commonly held meaning of sourcing is getting something from the source of supply. Outsourcing means sourcing from an outside supplier. A formal definition calls it 'the process of obtaining goodsand services from outside suppliers, instead of developing them within the organization'.[34]

Outsourcing is a vast academic subject and quite popular in practice. It has spawned a plethora of terms such as co-sourcing, multi-sourcing, crowd-sourcing, global sourcing, in-shoring, off-shoring, near-shoring, back-shoringand re-shoring each of them having a specific meaning and context. In this chapter, we are concerned with strategic outsourcing rather than outsourcing alone. That calls for understanding the difference between the two terms. Outsourcing is generally taken to mean obtaining parts and components of a product from an outside supplier. This is quite common business practice. Such outsourcing practices are driven by a tactical, problem-solving approach. However, when they are driven by actions aimed at solution of long-term issues, are used to pursue strategies, the results of actions emerge over several years, and such results are very significant to the organisation's long-term future then it is strategic outsourcing. In other words, when organisations go beyond the arm's length buyer-supplier relationship to outsource vital business functions such as marketing on long-term basis through establishing close partnership it is strategic outsourcing. Such outsourcing is an organised arrangement that emerges when firms rely on intermediate markets to provide specialised capabilities that supplement existing capabilities deployed along a firm's value chain.[35]

The transformation from outsourcing to strategic outsourcing is an evolutionary process. In the past, organisations adopted outsourcing decisions largely to meet financial objectives. Tactical plans, such as reducing costs, altering fixed costs to variable costs, andfreeing up capital, were often the basic reasons for outsourcing.[36] Organisations face amore challenging business environment that is more global, competitive, networked, and unpredictable. As a result, thedecision to outsource is more strategic than tactical in today's business environment.[37]

Strategic implications of outsourcing Strategic outsourcing happens when outsourcing makes strategic sense. This is likely to occur when outsourcing enables an organisation to concentrate on its core competencies and transfer non-core value chain activities to other organisations that can perform them better, cheaper, and faster.

The basis of outsourcing is the economics of production. It is common sense tofocus oneself on doing what one does the best and let others do something that they can do in a better, cheaper, and faster way. While doing so, firms are faced with the decision of procuring something that was either originally sourced internally (i.e. vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i.e. make or buy).' [38] Outsourcing acts in the manner of vertical disintegration, i.e. the reverse of vertical integration. Vertical disintegration takes place when some activities in the value chain are taken away from an organisation to be performed by another organisation that can do them more economically. Vertical disintegration is sometimes called fragmentation as value chain activities are distributed to different manufacturers and service providers.[39] In doing so, the overall costs are reduced. But just reduction of costs is not the purpose of strategic outsourcing which goes beyond to focus on core competencies of the organisation.

Understanding the five characteristics of strategic outsourcing listed next can help us to appreciate its strategic implications.[40]

- Close connection between outsourcing processes and the key success factors in an industry;
- Transfer of the ownership of a business function that was previously internalised, often including the transfer of personnel and physical assets to the supplier of the product or service;
- Overarching contract, wider and more detailed than a routine subcontracting agreement;
- Long run compromise between buyer and supplier; and
- Contractually defined service levels and partner obligations.

Strategic outsourcing, as a method for pursuing strategies, can help at both corporate and business levels. At the corporate level, strategic outsourcing can facilitate the accomplishment of corporate restructuring so that the organisation can focus on its core competence and pare off non-core activities. Strategic outsourcing can also help organisations adopt expansion strategies, diversification, and internationalisation. At the business level, strategic outsourcing can help the organisations adopt cost leadership strategies by helping to reduce cost of operations. Focus strategies can also benefit from strategic outsourcing by helping organisations specialise in serving a market niche by concentrating on the core activities and hiving off the non-core activities.

Conditions where strategic outsourcing is appropriate Strategic outsourcing as a method to pursue strategies is desirable when the outsourcing partners offer complementary capabilities to the ones that an organisation has. For instance, if an organisation has capabilities in design and marketing then there is complementarity if the outsourcing partner offers high-class manufacturing capabilities that create a strategic fit within the value chain.

Strategic outsourcing is possible in some industries and for certain types of services. Information technology and related services constitute the maximum scope for strategic outsourcing. This is so because organisations avoid making heavy capital investments into building IT infrastructure and hiring specialised technical staff. Besides, the IT service providers are available at a competitive price. However, strategic outsourcing is not a viable method for pursuing strategies in cases where technological requirements do not permit segregation of value chain activities. This often is the case in process-based industries such as aluminium or petrochemicals. Value chain activities can easily be disaggregated in many manufacturing and service industries and thus they are more probable candidates for strategic outsourcing.

Operations and services outside the scope of value chain activities can conveniently be outsourced. A wide range of services that come under the general category of facilities like catering, cleaning, housekeeping, maintenance, and security are invariably outsourced as they are not considered strategic. Organisations frequently outsource third-party logistics providers too.

Strategic outsourcing is facilitated by the availability of capable and resourceful suppliers. Where these are not available then it becomes difficult to outsource. Here there is a difference of context. Compared to developed countries, where there has been rapid development of highly specialised industries catering to the demand of large corporations needing expert services, conditions in developing countries are different. The decision of strategic outsourcing is dependent on whether there are able and willing suppliers to take up specialised tasks. Overall, the architecture of value chains can vary widely around the world depending on the industry and products involved.

Benefits and risks in strategic outsourcing Strategic outsourcing offers several advantages as follows:[41]

- Enabling focus on activities in core areas of competence
- Reduced capital and operational costs
- Freeing up assets for more productive use
- Complementing resource base with outsourcing partners
- Utilising advanced technologies available with outsourcing partners

- Dealing with business upturns and downturns through flexibility in managing outsourcing

Strategic outsourcing is a viable alternative provided the risks associated with it can be minimised. These risks could be:

- Hollowing out of core competencies
- Focusing on short-term benefits
- Overdependence on outside suppliers
- Leakage of information to outsiders
- High cost of managing outsourcing
- Increased complexity in managing outsourcing

Perhaps the biggest risk in strategic outsourcing is that an organisation might hollow out its core competencies. This means that it might outsource its core activities or too many non-core activities. When this happens the organisation loses its best capabilities over a period of time exposing it to the risk of loss of its competitive advantage.

Strategic outsourcing in Indian context India is considered a relatively low labour cost country and therefore it is favourably considered when foreign companies decide where to outsource for manufacturing and services. But when both the organisation and outsourcing partners are based in India such labour cost arbitrage does not happen. Thus, strategic outsourcing decisions would have to be based on other reasons than labour costs.

A study on outsourcing in banking industry in India concluded that the decision makers perceive operational and business-related benefits of outsourcing generating business value—by way of improved operational efficiency, improved quality of services, and access to new skills, capabilities and resources—to be more important than financial and cost-related benefits.[42] The experience of BhartiAirtel brings out the challenges involved in migrating from outsourcing to strategic outsourcing. Airtel planned to outsource build-up, maintenance, and servicing of the telecommunications network to equipment vendors Nokia, Siemens, and Ericsson and core IT infrastructure to International Business Machines Corporation (IBM).[43] The case of Tanishq—jewellery brand of Titan Industries—demonstrates an approach of strategic outsourcing based on using its core competence of jewellery retailing and sourcing plain gold products from small vendors and women self-help groups.[44] A consultant emphasises the primacy of strategic versus tactical goals of outsourcing that should be reflected in choosing strategic partners on the basis of their ability to help organisations transform rather than having competency in a specific area.[45]

The perception of benefits and risks of strategic outsourcing could also be different in the Indian context. For instance, advanced technology may not be a reason for outsourcing within India as better technological options may be available outside rather than within the country. India has been a beneficiary of provisioning of back-office services rather than being considered as a source for procurement of advanced technology. But things are changing with many of the MNCs setting up research and development (R&D) centres in India and the presence of highly qualified Indians in the R&D establishments elsewhere.

The regulatory environment is also a bottleneck in the Indian context so far as strategic outsourcing is concerned. Establishing strategic alliances and partnerships for strategic outsourcing could face cumbersome bureaucratic processes that hinder the ability of organisation to effectively outsource within and outside India.

The Indian IT industry has been a major beneficiary of the global trend of outsourcing and now is moving to a situation where outsourcing may take place to other developing countries from India. Here one needs to distinguish clearly between organisations that are in the business of outsourcing as many of the IT service providers are and the organisations that outsource some of its activities as a strategic decision. Thus, local companies such as Infosys Technologies or Tata Consultancy Services (TCS) and MNCs operating in India such as IBM or Accenture are in the business of outsourcing and beneficiaries of strategic decisions taken by user organisations within and outside India when they decide to outsource.

Academic literature on strategic outsourcing has focused on various aspects such as the rationale of outsourcing, nature and scope of activities outsourced, and sourcing models in terms of service models and vendor location. Research on strategic outsourcing in Indian context is scarce. Much of the research in outsourcing is on the IT-enabled services and business process outsourcing sectors.[46]

8.5 PURSUING STRATEGIES THROUGH DIGITALISATION LO 5

Digitalisation is defined as digital coding of information and the growing productivity gains in processing and transmission it enables.[47] The versatility and economy of digitalisation makes it possible for information to be available efficiently, sufficiently, inexpensively, and extensively within and outside organisations. This has significant implications for the strategies of organisations.

In this section of the chapter, we discuss digitalisation as a method of pursuing strategies. Digitalisation is a vast subject encompassing a number of areas such as business, social sciences, or technology. We will limit ourselves to discussing digitalisation only so far as it pertains to corporate and business levels within organisations. Later we will have an opportunity to discuss it in other contexts as well. Have a look at Exhibit 8.3 to understand some common terms used in the context of digitalisation.

Exhibit 8.3 Understanding Digitalisation

Computerisation means compressing huge amounts of analogue data into digital data making it possible for organisations to amplify, transmit, modulate, store, retrieve, and reconvert data. Computerisation also makes it possible to deal with data in its various forms: text, audio, still images, animation, video, and other forms that we call multimedia. In order to computerise data we need to first electronise it.

Electronisation is a term to denote progressive conversion of physical data into electronic data through digitisation. For example, a physical watch can show the time when we observe the hands pointing to figures on the circumference of the dial. An electronic watch shows the time in digits or numbers on the dial. A watch, however, cannot transmit the electronic data related to time. For this to take place, it has to be digitised and then networked.

Digitisation is a technical term denoting the conversion of analogue electrical signals into digital signals, a process that takes place, for instance, in the case of recording music on a compact disk when physical sound waves in the form of electrical sound signals get converted into digital electronic signals.

Computerisation, electronisation, and digitisation are supported by two other components of *telecommunications* and *networking* that create the phenomenon of convergence. Telecommunications enables organisations to move beyond their own boundaries to other organisations and get connected to public networks. This is what happened when organisational intranets developed and then got connected to public networks such as the Internet resulting in networking.

Convergence is the merging of all types of information into a common digital form. Convergence of all electrical impulses into digital is the underlying enabler of the digitalisation phenomenon. Organisations using computerisation, electronisation, digitisation, telecommunications and networking are digitalised enterprises and the process is called *digitalisation*.

Digitalisation has led to the widespread use of terms by prefixing 'E' or 'e' to traditional functions and activities. Thus, we have e-business (electronic business), e-commerce (electronic commerce), and various other terms such as e-learning, e-trading, e-banking or e-tailing, the last one referring to electronic retailing. On a wider scale, we have terms such as e-society, e-governance or e-healthcare.

Practically anything, the information of which can be digitised, can be transmitted over the electronic networks and thus traded or shared. This has created an entirely new type of product category known as *bitable or digitised products/services* that are products or services that can be rendered in the digitised form. Examples of bitable products/services are books, magazines, music, newspapers, software, videos, and financial, banking, and insurance services. No wonder, we have industries related to these products and services being profoundly affected by the phenomenon of digitalisation.

Besides the transformation of industries, yet another profound impact of digitalisation is the emergence of what are known as *electronic markets or e-markets.* The e-markets potentially integrate advertising, product ordering, delivery of products, and payment systems. A growing number of customers are attracted to buy (and sometimes also sell) products in the e-markets. An increasing number of industries where digitised products and services are available enter the e-markets to conduct their sales and marketing functions electronically.

The phenomenon of digitalisation has the potential to redefine the business of an organisation radically. New customer groups are created by the emergence of e-markets. Customer functions are redefined by the digitised products and services available in the e-markets. Alternative technologies emerge out of the convergence of information, Internet, networking, and telecommunications technologies. All this makes digitalisation an important method for pursuing strategies.

Methods of digitalisation We will look the concepts of value chain and value system to discuss the methods of digitalisation. Traditionally, value chains and value systems work in well-understood ways where input in the form of raw materials is provided through inbound logistics to the organisation where value-addition takes place through operations. The finished products are then supplied through marketing and sales to the customers. After-sale services support the value chain process wherever needed. When the value chain of one organisation is linked to that of another such as upstream supplier or downstream buyer then it forms the value system.

Digitalisation transforms the value chain and value system in several different ways as we try to understand as follows:[48]

Deconstruction Digitalisation changes the way that value chain and value system might work. The delivered product is actually just not a physical entity but also carries with it other components of value to the customer. For instance, a personal computer is a physical product but carries with it other informational inputs like instruction manual and warranty services. While the physical product can be delivered through traditional means, the other inputs in the value chain can be delivered digitally. This process is called deconstruction. Through deconstruction, the total product or service is broken down into components, some of which can be delivered digitally thus enhancing the value to the customers. Deconstruction also enables organisations to outsource and enter into strategic alliances where partners can join in to deliver enhanced value to the customer.

Disintermediation When some processes in the value chain are eliminated it is called disintermediation. This happens, for instance, in the case where instead of going to the railwaystation or to the travel agent to make a reservation one can go to the website of Indian Railways (IR) to make reservation by paying online. In this case, the process of making reservation and buying tickets from intermediaries such as the railway station counter or the travel agent is eliminated.

Re-intermediation When processes in the value chain are supplemented by one or more intermediaries it is called re-intermediation. On the surface, this might seem to be adding one or more components to the value chain and thereby making it inefficient. These intermediaries bring together sellers and buyers on a common platform such as a portal. Essentially these are infomediaries who do not own the products they help to sell but just provide information to the buyers and sellers. Thus, online booksellers might never own the books they sell but they provide a wealth of information to prospective buyers and help in marketing and selling the books to customers who can view them online and then purchase and pay for them.

Industry morphing Digitalisation has created a situation where traditional industries are transforming into entirely new types of industries. In this way, the traditional boundaries that defined a particular business are being transformed—a process called morphing. Value chains that are disintermediated or re-intermediated result in entirely different ways of providing the same products or services changing the nature of industries. Banking, for instance, has changed considerably where the customers or clients of the bank need not visit the bank personally as many of the functions they need to perform could be performed online. Likewise, industries such as insurance, retailing or healthcare are morphing and their changing characteristics are impacting the strategies of companies within them.

Cannibalisation In many businesses, a set of activities performed in the value chain are being replaced by a new set of activities thus eating away that part of the value chain. This eating away is called the cannibalisation of value chain. When we do not require travel agents to make a train or airline reservation their functions are replaced digitally by the Internet. Cannibalisation often works in tandem with disintermediation.

Techno-intensification Digitalisation of the value chain and value system results in a situation where there is more intensive use of technology and decreasing use of human resources. This phenomenon is termed as techno-intensification. There are several implications of techno-intensification such as higher capital investments in information technology, greater reliance on third-parties for alliances and outsourcing, and providing access to customers on a $24 \times 7 \times 365$ basis (providing access 24 hours a day, 7 days a week, and 365 days a year).

Re-channelling Deconstruction of value chain results in breaking it down into components and divesting or outsourcing these components to external suppliers and alliance partners. Re-channelling occurs, for instance, when manufacturers focus on production, outsourcing marketing to specialised agencies or divesting traditional channels of distribution in favour of Internet marketing.

Downes and Mui proposed the idea of digital strategy that incorporates several of the earlier methods of digitalisation to create what they call ‘killer apps’. Killer apps are applications of technology that operates in an ever-shortening cycle of development helping to create products and services that redefine the boundaries of markets and industries.[49] Such disruptive technologies are the outcome of a dedicated application of the methods of digitalisation. We can see in Exhibit 8.4 how such an approach would differ with the traditional strategic planning approach.

Exhibit 8.4 Comparison of Digitalisation-led and Traditional Approaches to Strategy

Type of approach	*Digitalisation-led strategy*	*Traditional approach to strategy*
Method	Launch experiments and adapt or abandon	Predict and plan
Analysis	Based on working prototypes	Paper-and-pencil analysis
Timeframe	12 – 18 months, revised monthly /continuously	3-to-5 years, revised annually
Owner	Everyone in organisation	CEO, strategists
Competitive threat	New forces of digitalisation, globalisation, and liberalisation	Michael Porter’s five forces
Role of information Technology	Disrupter	Enabler
Output	Killer apps	Strategic plan

Source: Adapted from L. Downesand C. Mui, ‘The End of Strategy,’ *Strategy & Leadership,* 26, no. 5 (November/December, 1998): 6.

The transformation of value chain and the value system through deconstruction, disintermediation, re-intermediation, industry morphing, cannibalisation, techno-intensification, and re-channelling and a dedicated application of these digitalisation methods have profound implications for strategies of organisations. Among these, one of the most significant impacts is that of the electronisation of business. We will now turn to a brief reference to digitalised business known more popularly as the electronic business or e-business.

Digitalised business or e-business E-business is 'a business process transformed to leverage the World Wide Web (www) (Internet, intranet and extranet) technology for business benefit. It is about using the Internet infrastructure and related technologies to enable business anywhere and anytime'.[50] E-business is what we colloquially refer to as 'doing business over the Internet'.

Internet technologies can be used in multifarious ways by organisations. They can be used, for instance, to build relationship with customers, automate the ordering process, allow customers to make secure payments online, speed up processes, and reduce costs of doing business significantly. E-business aims at integration of communication technologies with business processes and management practices. When this happens, one can say that we have a *net-enabled organisation* or *web-enabled organisation* that is yet another term for an organisation using e-business.

Often considered synonymous with e-business is the popular term e-commerce but it may just be a major part of e-business. E-commerce is concerned with conducting commerce, i.e. buying and selling over an electronic network usually the Internet. E-business is not limited to buying and selling but also to managing the organisational processes necessary to make the online transactions possible. Traditional organisations can incorporate e-commerce in the simple way by also enabling buying and selling over the Internet through their websites besides their usual channels of distribution and marketing.The popular forms of e-commerce are the business-to-business (B2B) and business-to-customer (B2C) and mobile commerce or m-commerce.

Leveraging digitalisation for strategy In recent times, the good thing happening is that digitalisation offers so many opportunities to conduct business more reliably, inexpensively, and efficiently through effective management of information networks, value chains, and supply chains. The bad thing is that the digitalisation technology changes are so fast (and dazzling too!) that they often outpace the understanding of managers about how to optimally digitise their operations to meet strategic and operational objectives. This results in a mismatch between what digitalisation offers and what managers can take.

Creating synchronisation between digitalisation and strategy is essential. Questions, such as these, need to be continually posed and answered: Is IT a fundamental driver of business activity? Is IT investment aligned with strategies and objectives? Is IT involved in the strategic decision-making process? Do managers take responsibility for realisation of benefits from IT?[51]

Digitalisation and competitive advantage The idea that digitalisation can help gain competitive advantage is an appealing one. It seems obvious that if an organisation can get a hold on some relevant new technology such as state-of-the-art information technology applications, it can use that to get ahead of its rival and thereby gain competitive advantage.[52] The competitive advantage of an organisation lies in its ability to use the advantage that it derives out of IT applications. This is so because competitors can easily replicate the IT infrastructure but not the way how the organisation has learnt to master its use. Consider the case of retail banking in India. Practically all retail banks in India are using or are going to use the ATM system. So no bank has any specific advantage of digitalising its customer service unless it learns how to use the ATM system well. This means that the ATM systems have to be reliable, secure, safe, and cheap to install and use. For this the bank, for instance, would have to maintain ATM systems properly, prevent fraud, maintain confidentiality, set realistic monetary limits of withdrawal, offer a guarantee of safety to the clients, graduate to using more secure authentication systems such as biometrics, have enough storage space in their hardware to store biometrics templates, and generally take steps to generate higher level of trust among the users. All of these must be done in a cost-effective manner. In addition, the bank staff must be able to deal with a crisis in terms of ATM breakdowns, pilferage, and misuse in a customer-centric way with a sensitive approach. In the long-run it must be able to widen the service offerings through the ATM rather than let it remain merely a cash-dispenser to make it more attractive to the clients. The route to competitive advantage clearly lies through the usage of ATM systems rather than the technology that makes them work.

Digitalisation and corporate strategy Organisations can leverage Internet capabilities for their corporate-level strategies. There are several different ways in which such leveraging can take place.[53]

- New means of generating synergies
- Enhancing revenue among elements of a diverse firm
- Linking sources of supply more efficiently
- Streamlining distribution
- Dealing with suppliers more efficiently.

There are various ways in which Internet could be used or harnessed by organisations when they adopt e-business. The website approaches that could be adopted by organisations:[54]

- Using the website to disseminate product information only
- Using the website as a minor distribution channel for selling direct to customers
- Using the website as one of the major distribution channels to access customers
- Using the website as the primary distribution channel to access buyers
- Using the website as the exclusive channel to transact sales with customers

Setting up an organisation website, deciding on the extent of its usage by opting for a particular approach, and leveraging the Internet capabilities are all steps on the journey towards digitalisation of business and creating an e-business.

Digitalisation and business strategy The business strategy of cost leadership lays emphasis on efficiency leading to cost advantage over its rivals. Digitalisation must help a cost leader in attaining efficiency and cost advantage by whatever means available. This could be done, for instance, by making efficiency work to build economies of scale leading to cost advantage for the organisation. Scale economies lead to building up the size and creating entry barriers for rivals. This needs to be done in a unique way creating a complex, internal configuration that is not easily imitable by the rivals. Only then can the positioning of cost leadership be sustainable. A few examples would serve to highlight these points.

Amul has successfully attempted managing a large decentralised network of suppliers and producers, simultaneous development of markets and suppliers, and developing lean and efficient supply chain for milk procurement for its dairy processing activities. It adopts a low-cost approach in cooperative farming by its Dairy Information System Kiosk (DISK) project where it has an application running at the village society level and a dairy portal at the district level serving the information needs of all members and staff in the district cooperative. Hero Honda's low-cost strategy uses traditional technological techniques such as value engineering and aluminium paints instead of plating metals to offer entry-level motorcycles. Hero Honda implemented Enterprise Resource Planning (ERP) system to create networking with its suppliers and dealers across India.

The business strategy of differentiation lays emphasis on differentiation of products and services from those of rivals. Digitalisation must help a differentiator in attaining differentiation by whatever means available. This could be done, for instance, by creating and offering unique value propositions that the customers would value and be willing to pay a premium price for. This needs to be done in a unique way creating a complex, internal configuration that is not easily imitable by the rivals. Only then can the positioning of differentiation be sustainable.

Let us take an example from the deregulated insurance industry in India. Bajaj Allianz, a private life insurance company in India and a late mover too, had burgeoning assets in terms of branch offices, rising numbers of customers and insurance agents. It made IT an integral part of its business strategy by building IT components around its differentiation business strategy. Spending just around 2 per cent of annual premium income on IT, the company implemented a joint application development and Time Boxes IT system that supports a popular customer portal, has a capacity for issuing 35,000 policies and manages collections of 50,000 policies per day. Internally, the IT system enables production of numerous reports and analyses on a daily basis that support managerial decision-making.[55] Another example is of the Khadi and Village Industries Commission (KVIC), a government organisation differentiating its range of products including khadi (muslin), leather, processed fruit and pulp, and handmade paper on the natural and eco-friendliness platform. It has one of the widest reach to nearly half of India's villages. It is implemented an IT programme that included product bar coding, online billing, and inventory management in its agencies called the Khadi Gramudyogs (village industries). The plan envisaged IT networking at three tiers: local agencies, branches, and KVIC headquarters. The aims were cost-saving and efficiency of retail operations.

The business strategy of focus lays emphasis on serving a limited market segment through cost leadership or differentiation. Digitalisation should enable a focuser to offer cheaper and/or better products than rivals can by whatever means available. This could be done, for instance, by narrowing the competitive scope to a niche market and applying IT to serve that market better than rivals can. This needs to be done in a unique way creating a complex, internal configuration that is not easily imitable by the rivals. Only then can the positioning of focused cost leadership /differentiation be sustainable. A broadband personal computer for just Rs. 5,000 with very nominal installation and monthly subscription made available to about 100 residents of K.K. Nagar in Chennai is an example of focused cost leadership by Nova net PC, the low-cost thin client from Novatium Solutions (P) Ltd.[56] Another example is of Wockhardt chain of hospitals that is not only focused on patient care but also caring about the anxious relatives and friends in the waiting rooms. In addition, it provides updates to relatives abroad who can make payments online. Doing this may not be high-tech but it is an illustration of a creative and sensitive way that the company uses IT to boost its focused differentiation.[57]

Bringing this section to a close, digitalisation is a strategic issue where the basic idea is to use technological developments as a fulcrum to initiate strategic changes and aim for competitive advantage through technology. But a note of caution here: digitalisation is often dominated by technological issues specially the impressive developments taking place in the field of IT. Technology vendors often tend to present IT as a panacea to organisational ills. It is not. Quite often, IT has meant overinvestment with little tangible results to show. Information technology may not really provide competitive advantage but just competitive parity. As the IT expert, Nicholas Carr argues in his article and a subsequent book, as IT's power and presence have grown, its strategic relevance has actually decreased. Information technology has been transformed from a source of advantage into a commodity that is just the cost of doing business rather than a strategic issue.[58] In a later article, Carr advocates the idea that since IT is a commodity, corporate computing can be outsourced just like no organisations produces power but draws it from an external source of power utility or an electricity company.[59]

Digitalisation is a comprehensive issue and has several facets to it. It has immense possibilities to be used as an effective method to pursue strategies both at the corporate and business levels.

8.6 INTEGRATING SUSTAINABILITY INTO STRATEGY LO 6

Concerns about the natural environment are here to stay as long as human beings face problems of pollution, degradation and deterioration of air, water and land quality. Environmentalism is on the agenda of international organisations, governments, and political parties. Progressive environmental legislation resulting in regulation and tougher rules and norms has created challenges for industrialists in implementing their projects efficiently. Consumers, suppliers, distributors, investors and lenders demand compliance to environmental laws. Organisational leaders are rallying behind sustainability and managers perceive the issue as increasingly important to their organisations' strategy. As sustainability continues to grow into a strategic issue, challenges to capturing its full value loom ahead.[60]

Sustainability remains rhetoric unless integrated into strategy. When integrated into strategy, sustainability gains traction towards simultaneous and balanced achievement of environmental, economic, and social objectives of organisations. Balanced growth is based on the triple bottom line of people, planet, and profit.In view of the increasing awareness about preservation of natural environment and the impact of environmental damage on human beings, sustainability rhetoric is increasingly adopted in organisational communication, external reporting, and reputation management but there is, as yet, little understanding of how sustainability could be integrated into strategy.

The challenge before organisation is to integrate social, environmental, and economic dimensions into corporate and business level strategies in a way that enhances, rather than detracts from, the creation of sustainable advantage. Sustainability may not only need to be integrated with strategy but it may even have to be changed to reflect concerns for sustainability. Further, the challenge is to leverage sustainability for value-creation and sustainable competitive advantage.

Integrating sustainability into corporate strategy A survey of over 120 MNCs in Europe and the US, about their challenges and priorities, revealed that a majority of them indicated that integrating sustainability into their corporate strategy is a top priority for their executive leadership team.[61]

An important aspect of integrating sustainability is development of capabilities within organisation that help to pursue corporate strategies. These capabilities could be several such as pollution prevention, waste minimisation, product stewardship, clean technology, base of pyramid engagement, regulation anticipation and advocacy, management of 'green know-how', and technology cooperation in developing world.[62]

Redefining corporate strategy as a mix of environmental, social, and economic value has substantial implications for all stakeholders of the organisations. To establish a sustainable business model, organisations need to engage in and explore a social and environmental domain that is unique to their vision and mission. If need be, organisations should be ready to change their business model to incorporate sustainability. The following are several areas where integration into corporate strategy could take place.

- *Composition of business portfolio:* At the level of corporate strategy a significant method to leverage sustainability is in the area of rethinking on the composition of the business portfolio of the organisation. Here there are several options to realise sustainable competitive advantage by means of acquisitions, developing, or acquiring green businesses, and divesting or altering environment-damaging businesses.
- *Mitigating risks to strategy through sustainability*: Corporate level actions often use diversification to spread risk among the businesses in the portfolio. This would entail diversification into industries that carry lesser risks of environmental damage.
- *Innovation and new businesses:* Organisations often use innovations to develop new products. For the purpose of integrating sustainability into strategy, organisations can take steps to develop and use clean technologies. Extending the product life cycle also helps in reducing dependence on scarce resources.
- *Reaching new customers and markets:* Actions to integrate sustainability might move the organisation in new directions. One of these could be looking for and focusing on new markets and customers through the lens of sustainability. It is possible for some organisations to adopt bottom-of-the pyramid approach to target new customers in new markets with appropriate products.
- *Sustainable value chains:*There is ample scope for organisations to aim at creating sustainable value chains through the strategies of backward and forward integration. Sustainable sourcing could be an aim for organisations to achieve in the effort to integrate sustainability into their strategy.

- *Involvement of stakeholders in sustainability and collaborating with partners for sustainability initiatives*: This is a potential area that could use through other methods of pursuing strategies such as strategic alliances and joint ventures.
- *Exploring opportunities for recycling waste* and reuse: Another potential area for organisations where corporate strategy could be aimed at a business portfolio that enables recycling waste and reuse of resources.

Integrating sustainability into business strategy Business strategies offer a wide scope for integrating sustainability. Customers' awareness and preference for environmentally safe products and packaging is increasing. The public opinion is in gradually turning in favour of environmental protection. Legal compliance to environment laws within India and in export markets require organisations to adhere to environmental laws and doing so makes it easier for organisation to sell their products and services. Besides, consumer protection legislation is becoming more stringent requiring organisations to respond with quality products.

For integrating sustainability into business strategies, organisations need to reduce costs and differentiate their products. Organisation could strive to become a low-cost producer through adopting waste minimisation and energy conservation or pursue differentiation strategy through incorporating green product features. Organisations come up with innovative means to create opportunities out of producing detergents from agricultural waste, turning rice husk into fuel-efficient tyre treads, recycling gadgets such as refrigerators and water filters and similar product development. They may actively support minimisation of waste by using paperless communication and gaining access to alternate sources of energy.

CII-ITC Centre of Excellence for Sustainable Development lists 100 Indian companies, five top in each of 20 sectors that score high on 500 environmental, social and governance indicators. Companies such as India Tobacco Company (ITC), Mahindra Rise, Maruti-Suzuki, Siemens, Tata Chemicals, and Tata Power are using the 'Sustainable Plus' label in their corporate communication and advertising.[63]

A significant number of Indian organisations make sophisticated sustainability efforts. Tata group companies are rated on action being taken to combat climate change, reduce waste, and use sustainability strategically as part of their business planning. Godrej, for example, Godrej makes energy-efficient air-conditioners and has 'greened' its operations to reuse discarded materials, minimise energy and water use, and cut emissions by switching from diesel to biomass fuel.[64]

Multinational companies in India such as Proctor & Gamble, ITC, and Coca Cola India are active in terms of applying sustainability to product and process innovations. Hindustan Unilever (HUL) claims to integrating sustainability into their strategy, brands, and innovation. Reducing waste and material use not only helps to create efficiencies and reduce costs but helps to increase profit margin. Opportunities for innovation are enhanced through incorporating sustainability into product development, sourcing and manufacturing. Customer engagement is enhanced through collaboration with partners.[65]

Overall, by integrating sustainability into strategy organisations can consider the matter as either compliance to laws and regulations and managing risks in which case it could be a cost or as a window of opportunity to offer innovative products and services making it a source of profitability.

Summary by Learning Objectives

This chapter dealt with the major methods to pursue strategies. We covered strategic alliances and joint ventures, M&As, strategic outsourcing, digitalisation and sustainability as the methods for pursuing strategies.

The main points covered in this chapter are as follows.

LO 1 *Appreciate how leveraging of resources, knowledge, technology, partnerships, and sustainability can take place for pursuing strategies.*

- Leveraging is a recurring theme to the various methods to pursue strategies. Organisations leverage resources, knowledge, technology, partnerships, and sustainability in order to pursue their strategies.
- Organisations leverage resources by combining existing resources, or combining existing with new resources. They leverage knowledge when they procure, create, store, share, disseminate and use knowledge within to pursue their strategies. Technology is leveraged by making use of tools and techniques available to facilitate accomplishment of their strategies. Leveraging partnerships takes place when organisations get into arrangements that let them share, collaborate, and cooperate with other organisations to pursue their strategies. When organisations seek to add value to their strategies through initiatives to balance and integrate environmental, economic, and social objectives they are leveraging sustainability.

LO 2 *Explain strategic alliances and joint ventures as methods for pursuing strategies.*

- Strategic alliance is a cooperative arrangement between two or more companies. The primary reason why firms enter into strategic alliances is to enhance their organisational capabilities and thereby gain competitive or strategic advantage. We discussed four types of strategic alliances: pro-competitive, non-competitive, competitive, and precompetitive alliances.
- Making strategic alliances is a popular though difficult method to pursue strategies. It requires to be managed properly to succeed. There are internal and external conditions that hinder the success of strategic alliances that are to be avoided. Many Indian companies have some kind of strategic alliance, depending on their requirements, with Indian and foreign companies. These companies entered into strategic alliances for growth and expansion, diversification, and access to various assets.
- A joint venture could be considered as an entity resulting from a long-term contractual agreement between two or more parties to undertake mutually beneficial economic activities, exercise joint control, and contribute equity and share in the profits or losses of the entity.
- Joint ventures are possible within industries, across industries, and across countries. The conditions under which joint ventures are usually those where joint action by two or more organisations is beneficial than acting alone. They offer the advantages of achieving objectives mutually by the participating firms and a viable strategic alternative for organisations interested in external expansion strategies.

LO 3 *Describe mergers and acquisition as methods for pursuing strategies.*

- A merger is a combination of two or more organisations in which one acquires the assets and liabilities of the other in exchange for shares or cash, or both and the organisations are dissolved, assets and liabilities are combined, and new stock is issued.
- The types of mergers are horizontal mergers, vertical mergers, concentric mergers, and conglomerate mergers. Both buyers and sellers in M&As have their own set of reasons to merge. There are a number of financial, managerial, and legal issues involved in mergers.
- Mergers could take place through either friendly or hostile takeovers. There are pros and cons of M&As. A majority of M&As do not succeed yet they are considered as the most prevalent methods used by Indian organisations to pursue strategies of growth and expansion.

LO 4 *Demonstrate how strategic outsourcing can help organisations pursue strategies.*

- Outsourcing is generally taken to mean obtaining parts and components of a product from an outside supplier. Such outsourcing practices are driven by a tactical, problem-solving approach. However, when they are driven by actions aimed at solution of long-term issues, are used to pursue strategies, the results of actions emerge over several years, and such results are very significant to the organisation's long-term future then it is strategic outsourcing.
- There are several strategic implications of strategic outsourcing among them is focusing on

core competence of the organisation and shedding non-core activities. Certain conditions make strategic outsourcing more beneficial to organisations. There are benefits as well as risks in strategic outsourcing.

- India has been a beneficiary of outsourcing by foreign companies. There are special conditions under which strategic outsourcing may be successful in Indian context.

LO 5 *Express the ways and means through which digitalisation can enable organisations pursue strategies.*

- Digitalisation refers to digital coding of information. The versatility and economy of digitalisation enables information to be available efficiently, sufficiently, inexpensively, and extensively within and outside organisations. This has significant implications for the strategies of organisations.
- There are several methods of digitalisation. These methods could be used to create killer apps based on disruptive technologies. E-business aims at integration of communication technologies with business processes and management practices. There could be five types of digitalisation strategies: E-channel, Click-and-brick, E-Portal, E-Market maker or Net market, and Pure e-digital products patterns.
- Digitalisation offers many opportunities to conduct business more reliably, inexpensively, and efficiently and could be leveraged to implement strategies successfully.
- Digitalisation transforms the value chain and value system in several different ways and makes immense contribution to the competitive advantage of an organisation. Organisations can leverage Internet capabilities for their corporate-level strategies and harness them for adopting e-business models. Digitalisation can also be utilised for pursuing business strategies.

LO 6 *Recognise the manner in which sustainability could be integrated into strategies.*

- Integration of sustainability into strategy makes it possible to have a simultaneous and balanced achievement of environmental, economic, and social objectives of organisations.
- Leveraging sustainability for corporate strategy means redefining strategy as a mix of environmental, social, and economic value. There are several ways through which sustainability could be embedded into the corporate strategy of an organisation.
- At the business level, sustainability could be leveraged in several different ways like making environmentally-safe products and packaging. Low-cost business strategies go hand-in-hand with waste reduction and energy conservation. Differentiation business strategies may involve offering green products and services.

EXERCISE

Short-answer Questions

1. How do organisations leverage their (a) resources (b) knowledge (c) technology (d) partnerships and (e) sustainability? **(LO 1)**
2. Why are strategic alliances 'strategic'? **(LO 2)**
3. What are the reasons for using strategic alliances? **(LO 2)**
4. How can Indian firms use strategic alliances for internationalisation? **(LO 2)**
5. Under what conditions are joint ventures created? **(LO 2)**
6. Why have M&A strategies gained popularity in India? **(LO 3)**
7. Why do buyer firms wish to merge? Why do seller firms wish to merge? **(LO 3)**
8. How do friendly takeovers take place? Hostile takeovers? **(LO 3)**
9. Differentiate between outsourcing and strategic outsourcing. **(LO 4)**
10. Enumerate some major strategic implications of outsourcing. **(LO 4)**
11. Point out conditions where strategic outsourcing can be leveraged for strategies of an organisation. **(LO 4)**
12. Make a list of, at least three, major benefits and three major risks of strategic outsourcing. **(LO 4)**
13. Explain the term digitalisation. **(LO 5)**
14. What can be the likely impact of digitalisation on the business definition of an organisation? **(LO 5)**
15. What is a digitalised business or e-business? **(LO 5)**
16. Mention the five approaches to using websites by organisations. **(LO 5)**
17. What is likely to happen if sustainability is not integrated into strategy? **(LO 6)**
18. Point out some major areas where sustainability could be integrated into corporate strategy. **(LO 6)**

19. How could sustainability help to make business strategies successful? **(LO 6)**

Assurance of Learning Exercises

1. Search on the internet for examples of Indian companies that have successfully leveraged their resources, knowledge, technology, partnerships and sustainability for pursuing their strategies. **(LO 1)**
2. Consider HUL's emphasis on sustainability in its products and operations. Would you agree that the company is successful in embedding sustainability into its products and operations? Why or why not? **(LO 1)**
3. Discuss the four types of strategic alliances. **(LO 2)**
4. How can organisations manage strategic alliances successfully? What are the pitfalls in strategic alliances and how they can be avoided? **(LO 2)**
5. Discuss the conditions under which joint ventures are created, what strategic issues are involved, and the benefits and drawbacks in joint ventures. **(LO 2)**
6. Discuss the different types of mergers and acquisitions strategies. **(LO 3)**
7. Discuss the strategic, financial, managerial, and legal issues involved in mergers in India. **(LO 3)**
8. Demonstrate through discussion and examples that strategic outsourcing is vertical disintegration by nature. **(LO 4)**
9. A large organisation engaged in the manufacture of consumer durables plans to focus on its core competencies. Illustrate how strategic outsourcing can help such an organisation to adopt market penetration corporate strategies through differentiation business strategies. **(LO 4)**
10. Write a descriptive note on digitalisation within and beyond organisations. **(LO 5)**
11. Discuss the principles underpinning digitalisation strategies. **(LO 5)**
12. Explain the manner in which digitalisation can transform the value chain and value system. **(LO 5)**
13. Discuss the five e-business patterns that are the strategic options before organisations for digitalisation. **(LO 5)**
14. Pick up several Indian business and IT magazines. Locate instances of organisations adopting digitalisation strategies and prepare an essay on the topic 'digitalisation strategies in Indian organisations'. **(LO 5)**
15. Debate on the issue: 'Sustainability remains rhetoric unless integrated into strategy' by building up arguments for and against the issue. **(LO 6)**
16. Discuss how a medium-sized organisation could embed sustainability into its strategies. **(LO 6)**

Review Case

PARTNERING FOR SUCCESS AT KALYANI GROUP*

Kalyani Group is a large family-business group of India having diverse businesses in the automotive, defence, engineering steel, industrial, infrastructure, renewable energy, and speciality chemicals sectors. The annual group turnover is US$ 2.5 billion, market capitalisation of US$ 5 billion, and more than 10,000 employees worldwide in 2014.

The flagship company of the Group is Bharat Forge Ltd. that is claimed to be the largest forging company in the world. The major companies of the Group are Kalyani Steels, Kalyani Carpenter Special Steels, Kalyani Hayes Lemmerz, Automotive Axles, Bharat Forge (BF) Utilities, Hikal Ltd., and Synise Technologies among its 16 companies in India and worldwide. The emphasis on leveraging alliances and partnerships is reflected in the five-point vision statement of the Group where the emphasis is on aggressive growth through internationalisation and commitment to customers and business partners. In 1994–95, a strategic planning exercise was undertaken with Tata Strategic Management Group (TSMG). At the end of 4 years, the strategy was redefined by asking the question 'where do we go from here?' leading to the answer 'consolidate and become international suppliers and get out of unrelated businesses'. There was an attempt to formulate a 5-year strategic plan in 1997 with the participation of the company executives. But not much is mentioned in the business press about collaborative strategic decision-making after that.

The Group is led by Mr. B.N. Kalyani, known for his aggression, dynamism, and also for a bit of short temper, and who is considered to be the major force behind the Group's aggressive internationalisation drive. Mr. Kalyani joined his father's group in 1972 when it was a small-scale diesel engine component business. He led the group through ups and downs over the decades leveraging technology through tie-ups with global manufacturers and pushing into international markets deftly moving from the traditional Russian and East European markets for India into US, Western Europe and China in the late 1990s and early 2000. His son, Amit Kalyani, joined him in 1999 and oversees finance, strategy, acquisitions, and human resources at Bharat Forge in addition to running other companies held by the unlisted family group. Being a top-driven group the pattern of strategic decision-making within seems to be entrepreneurial.

The corporate strategy of the Group has been a combination of concentration on its core competence in its businesses with efforts at building, nurturing, and sustaining mutually beneficial partnership with alliance partners and customers. The value of partnerships essentially lies in collaborative product development with the partners who are the original equipment manufacturers. The foreign partners are not intended to provide expansion in capacity but enabling the Kalyani Group to extend its global marketing reach.

In achieving its successful status, the Kalyani Group has followed the path of integration and diversification extending from the upstream steel-making to downstream machining for auto components such as crankshafts, front axle beams, steering knuckles, camshafts, connecting rods and rocker arms. In all these products the Group has tried to move up the value chain instead of providing just the raw forgings. In the 1990s, it undertook a restructuring exercise to trim its unrelated businesses such as television and video products and concentrate on its core business of auto components. Later, in its growth trajectory, the group has moved aggressively into infrastructure, renewable energy, and defence sectors.

Four factors are supposed to have influenced the growth of the Group over the years as follows.

- Focussing on core competencies of global supply chain capabilities and engineering skills to maximise growth potential
- Attaining aggressive cost savings
- Expanding geographically to build global capacity and establishing leading positions
- Achieving external growth through acquisitions and strategic alliances

A brief and illustrative enumeration of its partnering activities over the years demonstrate the strategic thinking of the group in leveraging strategic alliances, joint ventures, M&As and divestments.

- Alliances with Meritor for Automotive Axles (1980)
- Joint venture with Sharp Corporation for Kalyani Sharp operating in consumer electronics (1986) and its subsequent divestment
- Alliance with Maxion Wheels for Kalyani Hayes Lemmerz (1995)
- Acquisition of ImatraKilsta AB and US Federal Forge (2005)
- Acquisition of RSB Consult GmBH for KenersysGmBH in wind energy
- Alliances and joint ventures with National Thermal Power Corporation (NTPC), Cummins and David Brown (2009–10)
- Joint venture with Saab and Elbit Systems for defence equipment (2014)

This is what B.N. Kalyani has to say about his approach to joint ventures (and partnerships and alliances) in answer to an interview question by indiainfoline.com a decade back:

'We have had very successful JVs for 18-20 years. In India JVs can work if you learn relationship management. And relationship management is the job of the top man in the company or group. In our group, I have to do it. The basic idea is to create trust and confidence. Then leverage it and use the reach of the global partner to access overseas markets and/or superior technology.'

The Group companies are claimed to be positioned at either number one or two in their respective businesses. For instance, the Group claims to be number one in forging and machined components, axle aggregates, wheels, and alloy steel. The Group invests in forging technology to enhance efficiency, production quality, and design capabilities. The Group's emphasis on technology can be gauged from the fact that in the 1990s it took the risky decision of investing Rs. 100 crore in the then latest forging technology when the total Group turnover was barely Rs. 230 crore. Information technology is applied for product development, reducing production and product development time, supply-chain management, and marketing of products. The Group lays high emphasis on research and development for providing engineering support, advanced metallurgical analysis, and latest testing equipment in tandem with its high-class manufacturing facilities.[66]

Questions

1. Identify the different methods Kalyani Group has used to pursue its strategies. **(LO 2, LO 3, LO 4)**
2. What is the motive for strategic alliances by the Kalyani Group? Explain. **(LO 2)**
3. Express your opinion on whether Kalyani Group is overusing the alliances route to growth hurting its own capacity to develop technology in the long run. **(LO 1, LO 2)**

Notes and References

1. Group website at *http://www.mahindra.com/*; Annual Report 2013–14 at *file:///C:/Users/Admin/Downloads/MandM%20AR%20F14.pdf*; 'M&M's new world' *Business Today (*14 August, 2005): 48; 'Anand Mahindra: CNBC's Asian business leader', at *http://www.domain-b.com/companies/companies_m/mahindra/20061027_business.html*; and 'Full throttle' at *http://businesstoday.intoday.in/story/best-indian-ceos-2014-anand-mahindra-leadership-vision/1/212733.html*. All websites retrieved 9 December, 2014.
2. D. Mehta and S. Samanta, 'The Nature and Significance of Strategic Alliances,' in *Vikalpa,* 21, no. 2 (April–June 1996): 16.
3. M.Y. Yoshino and U. Srinivasa Rangan, *Strategic Alliances: An Entrepreneurial Approach to Globalization* (Harvard Business School Press, Boston, 1995).
4. Quoted from I. Gupta, 'Riding the Tiger,' *The Strategist Quarterly (Business Standard)* (July–September 1997): 5.
5. J. Wakeam, 'The Five Factors of a Strategic Alliance,' *Ivey Business Journal*, (May/June 2003) at*www.iveybusinessjournal.com/article/asp?intArticle_ID=417*. Retrieved 17 May, 2007.
6. B.A. Walters, S.A. Peters, and G.G. Dess, 'Strategic Alliances and Joint Ventures: Making them Work,' in *Business Horizons*, 37, no. 4 (July–August 1994).
7. M.Y. Yoshino and U. SrinivasaRangan, *op. cit.*
8. Ibid.
9. D. Likhi and Sushil, 'The Importance of Situation, Actors, and Process in Management of Strategic Alliances: Caselet Based Study,' *Global Business Review,* 6, no. 1 (2005): 29–39.
10. R.K. Pillania, 'Strategic Alliances in India', *Journal of Advanced Research in Organizational Psychology,* 1, no. 1 (2012): 22–30. Also see these references for research on strategic alliances in Indian context: D.K. Likhi,'Managing Strategic Alliances: Drivers of Success from a Case of Select Industries in India,'*International Journal of Global Business and Competitiveness*, 5, no. 1 (2010): 25–36; S. Ray, 'Strategic Alliance in India under Globalised Economic Scenario,'*Advances in Asian Social Science,* 4, no. 2 (2013): 824–35; and S. Ray, 'MNEs, Strategic Alliances and Efficiency of Firms: Emerging Trends,' *Economic and Political Weekly*, 39, no. 5 (31 January–6 February, 2004): 434–40.
11. S. Bhattacharyya and J. Shaik, 'Strategic Alliances: Perspectives from Indian Life Insurance Industry,'

International Journal of Indian Culture and Business Management, 3, no 1 (2010): 98–120.

12. *Exchange Control Manual: Guidelines for Indian Direct Investment in Joint Ventures and Wholly Owned Subsidiaries Abroad*, Reserve Bank of India, Government of India, 2005.
13. For a detailed guide to joint ventures in India see this nicely prepared explanatory note by a legal firm: *http://www.indialegalhelp.com/files/jvforeigncompanies.pdf*. Also see RBI guidelines for Indian direct investments in joint ventures abroad: *http://www.rbi.org.in/scripts/ECMUserView.aspx?Id=41*. Both sites retrieved 6 October, 2014
14. A. A. Thompson Jr. and A. J. Strickland III, *Strategic Management - Concepts and Cases* 3rd ed. (Plano, Texas: Business Publications, 1984): 90.
15. K. Gopalan, 'The Art of Living Together,' *Business Today,* 17 December, 2006, 112–18.
16. Ibid.
17. W. F. Glueck and L. R. Jauch, *Business Policy and Strategic Management* 4th ed. (New York: McGraw-Hill, 1984): 241.
18. Thompson and Strickland, op. cit., 90.
19. N. Venkiteswaran, 'Restructuring of Corporate India: The Emerging Scenario,' *Vikalpa,* 22, no. 3 (July–Sept 1997): 7.
20. Glueck and Jauch, *op.cit.*, 224.
21. Information regarding legal issues regarding M&A in India taken from: *file:///C:/Users/Admin/Downloads/INDIA%20-%20Negotiated%20M&A%20Guide%202011.pdf*. Retrieved 6 October, 2014.
22. P. Chandra, *Financial Management—Theory and Practice,* 1st revised ed. (New Delhi: Tata McGraw-Hill, 1987): 660–61.
23. N. Maluste, 'Takeovers—A game capitalists play,' in *Business India*, (6–19 March, 1989).
24. D.C. Shashwat, 'Why Mergers and Acquisitions Bite the Dust?' 12 September, 2014 available at *http://www.moneycontrol.com/news/features/why-mergersacquisitions-bitedust_1175726.html*. Retrieved 6 October, 2014.
25. P. Joshi, 'Predator's Ball,' in *Express Investment Week* (16–22 March, 1998): 20–21.
26. Many good reference sources are available to learn about the regulatory and legal aspects of M&As in India. See, for instance, 'Negotiated M&A Guide' here: *file:///C:/Users/Admin/Downloads/INDIA%20-%20Negotiated%20M&A%20Guide%202011.pdf*; Report of an expert committee on M&A to the Ministry of Corporate Affairs, Government of India here: *http://mca.gov.in/Ministry/reportonexpertcommitte/chapter10.html*; An article on M&A regulations in India in the Indian Law Journal here: *http://www.indialawjournal.com/volume1/issue_1/m_a_regulations.html*.
27. Grant Thornton provides statistics and information on M&A deals in India. See here: *http://www.grantthornton.in/publications/filtered-by-industry-sector-ma-and-private-equity/?pub=true*. Also see Dealogic at: *www.dealogic.com/*. Other information providers are Bloomberg L.P., Mergermarket, and Thomson Reuters.
28. S. Kaur and O.P. Gupta, 'A Study of Corporate Takeovers in India', Unpublished Ph.D. thesis (Delhi: University of Delhi, 2002).
29. See, for instance R.K. Pillania, 'Mergers & acquisitions Strategy in India: Study of Top 100 Firms, '*Journal of Advanced Research in Management*, 2, no. 2 (2011): 82–84; S. Kumar and L.K. Bansal, 'The impact of mergers and acquisitions on corporate performance in India,'*Management Decision,* 46, no. 10 (2008): 1531–43 and R. Kalra, 2013, 'Mergers and Acquisitions: An Empirical Study on the Post-Merger Performance of Selected Corporate Firms in India,' *IUP Journal of Business Strategy,* 10, no. 4 (2013): 7.
30. N.M. Leepsa and C.S. Mishra, 'Do Mergers & Acquisitions Pay Off Immediately?: Evidence from Mergers & Acquisitions in India,' *South Asian Journal of Management*, 20, no. 3 (2013): 39–57.
31. See, for instance P. Bhalla, 'Mergers and Acquisitions in India with Special Reference to the Financial Sector: Recent Trends and Patterns,' *IUP Journal of Business Strategy,* 7, no. 3 (2010): 37–59 and S. Sami, 'Mergers and Acquisitions in India's Pharmaceutical Sector,' *Transnational Corporations Review,* 6, no. 1 (2014): 86–100.
32. R.Y.W. Tang and A.M. Metwalli, 'Mergers and acquisitions in India, Pakistan and Bangladesh,' *International Journal of Commerce and Management*, 23, no. 4 (2013): 327–38.
33. D. Basu, S.G. Dastidar, and D. Chawla, 'Corporate Mergers and Acquisitions in India: Discriminating between Bidders and Targets,' *Global Business Review,* 9, no. 2 (2008): 207–18.
34. J.C. Anderson and J. A. Narus, 'Partnering as a focused market strategy,' *California Management Review,* 33, no. 3 (1991): 95–113.
35. T.R. Holcomb and M.A. Hitt, 'Towards a Model of Strategic Outsourcing,' *Journal of Operations Management,* 25, no. 2 (2007): 464–81.

36. R. Ventkatesan, 'Strategic Sourcing: To Make or Not To Make,' *Harvard Business Review*, 70, no. 6 (1992): 98–107.
37. O. Demirtas, 'Evaluating the Core Capabilities for Strategic Outsourcing,' *The Proceedings of 9th International Strategic Management Conference,* 99, 6 November, 2013, 1134–43.
38. K.M. Gilley and A. Rasheed, 'Making More by Doing Less: An Analysis of Outsourcing and its Effects on Firm Performance,' *Journal of Management*, 26, no. 4 (2000): 763–90.
39. T. Rothaermel, M.A. Hitt, and L.A. Jobe,'Balancing Vertical Integration and Strategic Outsourcing: Effects of Product Portfolio, Product Success, and Firm Performance,'*Strategic Management Journal*, 27, (2006): 1033–56.
40. B. Quélin and F. Duhamel, 'Bringing Together Strategic Outsourcing and Corporate Strategy: Outsourcing Motives and Risks,' *European Management Journal,* 21, no. 5 (2003): 647–61.
41. C. Harland, L. Knight, R. Lamming, and H. Walker, 'Outsourcing: Assessing the Risks and Benefits for Organisations, Sectors and Nations,' *International Journal of Operations & Production Management*, 25, no. 9 (2005): 831–85.
42. R. K. Jain and R. Natarajan, 'Factors Influencing the Outsourcing Decisions: A Study of the Banking Sector in India,' *Strategic Outsourcing: An International Journal,* 4, no. 3 (2011): 294–322.
43. S. Singh and R. Dubey, 'The Man Who Gave Away His Network,' by *Business World* (India), 4 October, 2004, *www.businessworldindia.com/oct0404/coverstory01.asp.*, Also see: F.A. Martinez-Jerez and V.G. Narayanan, 'Strategic Outsourcing at Bharti Airtel Limited,' *Harvard Business School Case study l 9-107-003* available at *https://caldav.os3.nl/_media/2009-2010/courses/icp/strategic_outsourcing_at_bahrti_airtel.pdf*. Both sites retrieved 9 October, 2014.
44. G. Kannabiran and S. Bhaumik, 'Corporate Turnaround through Effective Supply Chain Management: The Case of a Leading Jewellery Manufacturer in India,' *Supply Chain Management: An International Journal,* 10, no. 5 (2005): 340–48.
45. A. Menon, 'Strategic Outsourcing Partnerships Heading for a Big Shift,' *Business Standard* (30 December, 2013) available at *http://www.business-standard.com/article/management/strategic-outsourcing-partnerships-headed-for-a-big-shift-113122900636_1.html*
46. For a review of research in Indian context on outsourcing see A.K. Panda, 'Business Process Outsourcing: A Strategic Review on Indian Perspective,' *Business Process Management Journal,* 18, no. 6 (2012): 876–97.
47. O. Bomsel and G. Le Blanc, 'Digitalisation, Innovation, and Industrial Organisation: The Pivotal Case of the Auto Industry,' *International Journal of Electronic Business*, 2, no. 2 (2004): 193–204.
48. M. Greenstein and M. Vasarhelyi, *Electronic Commerce,* 2nd ed. (McGraw-Hill, 2001).
49. L. Downes and C. Mui, 'The End of Strategy,' *Strategy & Leadership,* 26, no.5 (1998): 5–9. Also see L. Downes and C. Mui, *Unleashing the Killer App: Digital Strategies for Market Dominance* (Boston: Harvard Business School Press, 1998).
50. IBM: *iSeries e-business Handbook: A Technology and Product Reference*, 2001, available at *http://www.redbooks.ibm.com/redbooks/SG246711.html.* Retrieved 31 May, 2007.
51. L. Willcoxson and R. Chatham, 'Progress in the IT/Business Relationship: A Longitudinal Assessment,' *Journal of Information Technology,* 19, no.1 (March 2004): 71–80.
52. S. Clarke, *Information Systems Strategic Management* (Oxon: Routledge, 2007): 102.
53. G.G. Dess, G.T. Lumpkin, and A.B. Eisner, *Strategic Management: Text & Cases* (McGraw-Hill/Irwin, 2006).
54. A.A. Thompson, A.J. Strickland, and J.E. Gamble, *Crafting and Executing Strategy: The Quest for Competitive Advantage* (McGraw-Hill, 2007).
55. A. Adhikari, R. Sachitan and, N. Varadarajan, K. Mitra, 'India's 20 Most Wired,' *Business Today* (22 April, 2007): 101–24.
56. V. Jagannathan, 'An Always-on-Broadband PC for Broadband,' *domain-b.com* (12 March, 2007).
57. R. Sachitanand, R. Mukherjee, S. Agarwal, and N. Varadarajan, 'The Wired 20,' *Business Today* (23April, 2006): 111–26.
58. N.G. Carr, 'IT Doesn't Matter,' *Harvard Business Review* (May 2003): 5–12; and N.G. Carr, *Does IT Matter? Information Technology and the Corrosion of Competitive Advantag*e (Harvard Business School Press, 2004).
59. N. G. Carr, 'The End of Corporate Computing,' *MITS Loan Management Review,* 46, no. 3 (Spring, 2005): 67–73.
60. Sustainability's strategic worth: McKinsey Global Survey Results, July, 2014. Available at: *http://*

www.mckinsey.com/insights/sustainability/sustainabilitys_strategic_worth_mckinsey_global_survey_results. Retrieved 9 October, 2014.

61. *https://www.conference-board.org/workinggroups/wkgGrpDescribe.cfm?councilid=387*. Retrieved 11 October, 2014.
62. V.P. Murthy, 'Integrating Corporate Sustainability and Strategy for Business Performance,' *World Journal of Entrepreneurship*, 8, no. 1 (2012): 5–17.
63. Website of CII-ITC Centre of Excellence for Sustainable Development at *http://sustainabledevelopment.in/ourbrands/listof100companies#*. Retrieved 12 October, 2014.
64. G. Wyeth, 'Eco-friendly: Going Green a Priority for Indian Companies,' *The Economic Times* (23 October, 2013) available at: *http://articles.economictimes.indiatimes.com/2013-10-23/news/43326500_1_sustainability-kirloskar-brothers-indian-companies*. Retrieved 12 October, 2014.
65. Corporate website of Hindustan Unilever at: *http://www.unilever.com/sustainable-living-2014/our-approach-to-sustainability/embedding-sustainability/*. Retrieved 12 October, 2014
66. Website of Kalyani Group at *http://www.kalyanigroup.com/index.asp*; 'Can Kalyani Forge a New Future?' *The Financial Express* (17 September, 2001); 'How the Kalyani Group is Transforming itself into a Major Force in the Forgings and Auto Ancillary Industries,' at *http://www.indiainfoline.com/article/news-sector-others/mr-baba-n-kalyani-chairman-kalyani-group-113111400035_1.html*; 'Sum of Parts: Kalyani Chases a Global Dream,' at *http://articles.economictimes.indiatimes.com/2005-11-18/news/27510850_1_amit-kalyani-bfl-baba-n-kalyani*; 'Kalyani Group Seeks Permission for Trials of Indigenous 155 mm gun,' at *http://www.thehindu.com/news/national/kalyani-group-seeks-permission-for-trials-of-indigenous-155-mm-gun/article5660993.ece*; Next Tycoons: 'Amit Kalyani Cranks Things Up At Bharat Forge,' *http://www.forbes.com/sites/forbesasia/2014/06/04/next-tycoons-amit-kalyani-crank-things-up-at-bharat-forge/*. All websites retrieved 7 December, 2014.

9

CHAPTER

Strategic Analysis and Choice

Learning Objectives

After reading this chapter you should be able to:

LO 1 Describe the process of strategic choice
LO 2 Apply the tools and techniques for strategic analysis
LO 3 Examine the subjective factors in strategic choice
LO 4 Discuss the manner in which organisations handle unforeseen environmental events through formulation of contingency strategies
LO 5 Devise the contents of a typical strategic plan for an organisation

Chapter Outline

Preview Case

STRATEGIC CHOICES FOR BAJAJ ALLIANZ GENERAL INSURANCE*

Liberalisation and progressive de-regulation of the insurance industry in India in 2000 has led a spate of new companies and alliances to cater to the burgeoning life and non-life insurance markets in India. Some of the largest global insurance companies have entered into joint ventures with domestic companies to usher product and operational innovations in the Indian insurance industry. Among these is Bajaj Finserv that has two alliances with Allianz of Germany in the general and life insurance sectors in India.

Bajaj Allianz General Insurance Company Limited is a joint venture between Bajaj Finserv and Allianz SE of Germany. It started operations in 2001 to conduct general insurance business (including health insurance business) in India. Bajaj Finserv holds 74 per cent and the remaining 26 per cent is held by Allianz, SE. Bajaj is visualised as contributing to an understanding of the local market needs and a wide distribution network while Allianz is expected to pitch in with its global experience in the industry and technical expertise. The business portfolio of Bajaj Allianz comprises of insurance products for cars, two-wheelers, health, and travel. The company has its network presence in over 180 towns spread across India.

The Government of India liberalised the insurance sector in March 2000, with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. That limit has created a situation where the private non-life insurers in India face a resource crunch as they are required to do continual capital infusion. Most companies seem to be giving in by chasing growth and market share at the expense of profitability.

Strategic grouping in the general insurance sector is generally along ownership lines though product offerings and strength in different market segments could as well be the basis for direct competition. Presently there are 28 general insurance companies with 6 public sector companies and 22 private insurers earning a gross premium of Rs. 63,000 crore in 2012–13. Among the six public sector companies, four are in multi-line businesses and two are specialised in credit and crop insurance. There are five market segments based on product offerings: motor, health, fire, marine, and others. Motor segment is the largest followed by the health insurance segment. The insurance industry in India makes use of intermediaries to sell policies that include individual agents, brokers, and corporate agents and banks besides the upcoming channel of web aggregators. Geographically, the insurance markets lead in Maharashtra, Delhi, West Bengal, and Tamil Nadu.

Of the 22 private non-life insurers, 4 operate only in health insurance. The public sector companies still dominate the general insurance business but the private players are growing at a faster pace. Private sector non-life insurers have been expanding their share in an intensely competitive domestic market according to figures released by the IRDA. The ICICI Lombard remains the largest private sector insurer in the country followed by and Bajaj Allianz and HDFC Ergo. The largest public sector insurer is the New India Assurance followed by the United, Oriental, and the National Insurance.

Worldwide the share of life versus non-life is in the ratio of 60:40 while in India it is 80:20 indicating the potential for non-life insurance, particularly, health insurance in India. The indicators of insurance penetration and density indicate that for a decade after liberalisation till 2009, the figures increased for both life and non-life insurance sectors but since they have been declining. This is an indication of the failure of the industry to capitalise on the opportunities in the Indian insurance markets.

Bajaj Allianz General Insurance's vision is stated as: (a) to be the first choice insurer for customers; (b) to be the preferred employer for staff in the insurance industry; and (c) to be the number one insurer for creating shareholder value. Its mission is stated in simple terms as: 'As a responsible, customer focused market leader, we will strive to understand the insurance needs of the consumers and translate it into affordable products that deliver value for money.'

A quick strengths, weaknesses, opportunities and threats (SWOT) analysis by the chief executive officer (CEO) of Bajaj Allianz General Insurance is something like this.

- *Strengths:* Strong promoters; best people with domain knowledge; all-India network; offering products across all lines; and strong IT infrastructure.
- *Weaknesses:* All-India presence and good track record makes Bajaj Allianz a fertile company for poaching of employees by other private insurance companies.
- *Opportunities:* A vast, untapped potential for health insurance; global growth in insurance is around 2.3 per cent in terms of premium (2012) while in India it has been growing at a compound annual growth rate (CAGR) of about 18 per cent since the last several years; geographical expansion; de-tariffing (scrapping of administered pricing done in 2007) likely to offer differential pricing for customers; internet growth and penetration having a positive impact on spread of insurance industry; potential of micro-insurance for rural areas.
- *Threats:* Regulatory tightening for customer protection and awareness; an industry where most companies focus on increasing market share and aggressiveness increasing pressure on profitability; operating losses in many companies; higher bargaining power for intermediaries; low understanding among customers of insurance products, and obligations of insurance companies to rural and social sectors.

The private insurance companies in India were in the learning phase as the first few years the focus had to be on setting up capacity and base. The growth came from taking bigger risks as market segments considered more risk-prone have shown higher growth rates. The future holds several imponderables for the general insurance industry in India. When the expected moves by the IRDA allows completely free pricing and changes in policy wordings, the dynamics of the industry will change further. Stiffer competition may mean considering growing new lines of business. Since the squeeze on margins is particularly severe in corporate and commercial lines of business, insurance companies are now looking to tap retail customers to cushion against the pricing pressures. In line with this the general insurers are looking towards hinterland or non-urban India. Success in Indian non-life insurance industry may require companies to reassess various aspects of their business models frompricing, products, risk management, customer acquisition and distribution. There's plenty of room to grow as one industry experts puts it: 'What we are selling is peace of mind and there is enough buying power for that.'[1]

Organisations continually face the challenge of exercising choice among alternatives. Choice is an inalienable part of the decision-making process. Bajaj and Allianz, as illustrated in the opening case, both must have faced the choice of picking up a business partner from the several available. They ended up choosing each other creating Bajaj Allianz. That level of choice is what is called a strategic choice. It is strategic as it is for long-term, involves a lot of commitment from either side, and affects the future of both the organisations. Further, you can observe that Bajaj Allianz faces a set of opportunities and threats that it has to match with its internal strengths and weaknesses to devise workable strategies. You can also note the industry information in the preview case to understand the context in which Bajaj Allianz operates. Overall, a lot of analysis goes into making a strategic choice. An organisation has to look inwards, outwards, and sideways before taking a leap into the unknown. Once on the course, things often happen that were not foreseen. An organisation has to be prepared with contingency strategies—the 'what-if' scenarios under unexpected situations arising. This chapter will focus on the issues related to the different facets of strategic analysis and choice.

9.1 PROCESS OF STRATEGIC CHOICE LO 1

The process of strategic choice is essentially a decision-making process. The decision-making process consists of setting objectives, generating alternatives, choosing one or more alternatives that will help the organisation achieve its objectives in the best possible manner, and finally, implementing the chosen alternative. For making a choice from among the alternatives, a decision-maker has to set certain criteria on which to accept or reject alternatives. These criteria are the selection factors. They act as guides to decision-making and considerably simplify the process of selection which otherwise would be a very difficult task.

Strategic choice could be defined as 'the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise's objectives. The decision involves focussing on a few alternatives, considering the selection factors, evaluating the alternatives against these criteria, and making the actual choice'.[2]

There are four steps in the process of strategic choice as follows:

1. Focusing on strategic alternatives
2. Analysing the strategic alternatives
3. Evaluating the strategic alternatives
4. Choosing from among the strategic alternatives

These four steps in the process of strategic choice are described further.

Focussing on Strategic Alternatives

The aim of focussing on a few strategic alternatives is to narrow down the choice to a manageable number of feasible strategies. Theoretically, it is possible to consider all the alternatives. On the other hand, a decision maker would, in practice, limit the choice to a few alternatives. Such a situation frequently poses a dilemma before the decision maker considering too many alternatives would make the process unwieldy and unproductive; but if only a few alternatives are considered, the decision maker may ignore others which should have been considered or consider those that should have been ignored. For resolving this dilemma, a decision maker has to focus on a reasonable number of alternatives. It is still difficult to tell what that 'reasonable' number could be.

Focussing on alternatives could be done by visualising the future state and working backwards. This is done through gap analysis.[3] A company sets objectives for a future period of time, say three through 5 years, and then works backward to find out where it can reach through the present level of efforts. By analysing the difference between the projected and desired performance, a gap could be found.

Exhibit 9.1 Gap Analysis for Focussing on Strategic Alternatives

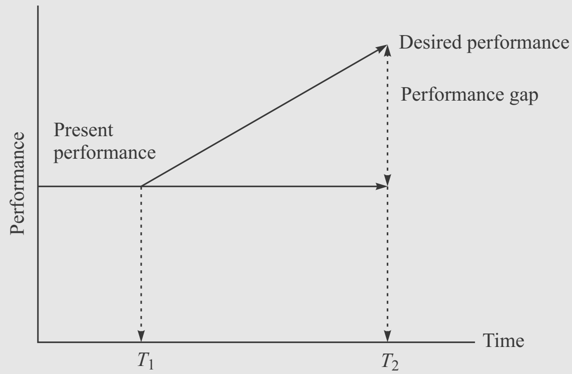
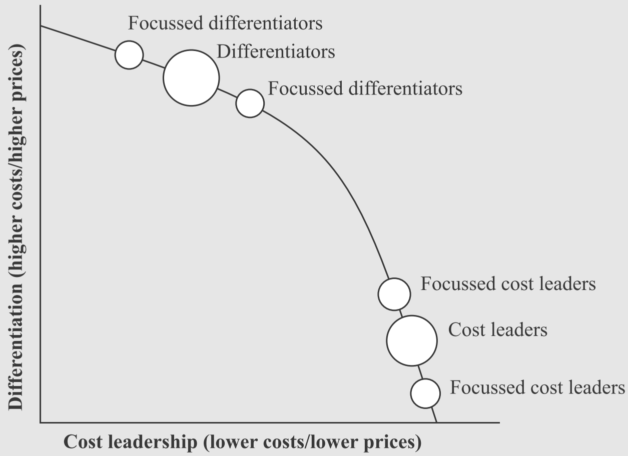


Exhibit 9.1 shows how gap analysis works. How wide or narrow the gap is, its importance, and the possibility of it being reduced influence the focus on alternatives. At the corporate level, the strategic alternatives are four: expansion, stability, retrenchment, and combination. Where the gap is narrow, stability strategies would seem to be a feasible alternative. If the gap is large, due to expected environmental opportunities, expansion strategies are more likely. If it is large due to past and expected bad performance, retrenchment strategies may be more suitable. A complex scenario where multiple reasons are responsible for the gap, combination strategies are likely.

At the business level, organisations need to think of alternative ways of competing. The choice is essentially between positioning the business as being low-cost, differentiated, or focussed. Organisations need to understand the conditions in the industry and weigh carefully the risks and benefits of each competitive positioning before making a choice. In practice, the choice leads to a situation of dynamic competitive positioning where low-cost and differentiation are not discrete positions but lie on a continuum. This can be seen in Exhibit 9.2.

Exhibit 9.2 Dynamic Competitive Positioning



Source: Adapted from C.W.L. Hill and G.R. Jones, *Strategic Management: An Integrated Approach* (Boston: Houghton Mifflin, 2007): 164.

Focusing on alternatives at the business level could also be understood by reverting to the business definition. The three dimensions along which a business is defined (customer groups, customer functions, and alternative technologies), enable a decision maker to think in a structured fashion and systematically move in one or more dimensions, generating a number of feasible alternatives.

Exhibit 9.3 Possible Business Definition Alternatives for an Oral Care Company

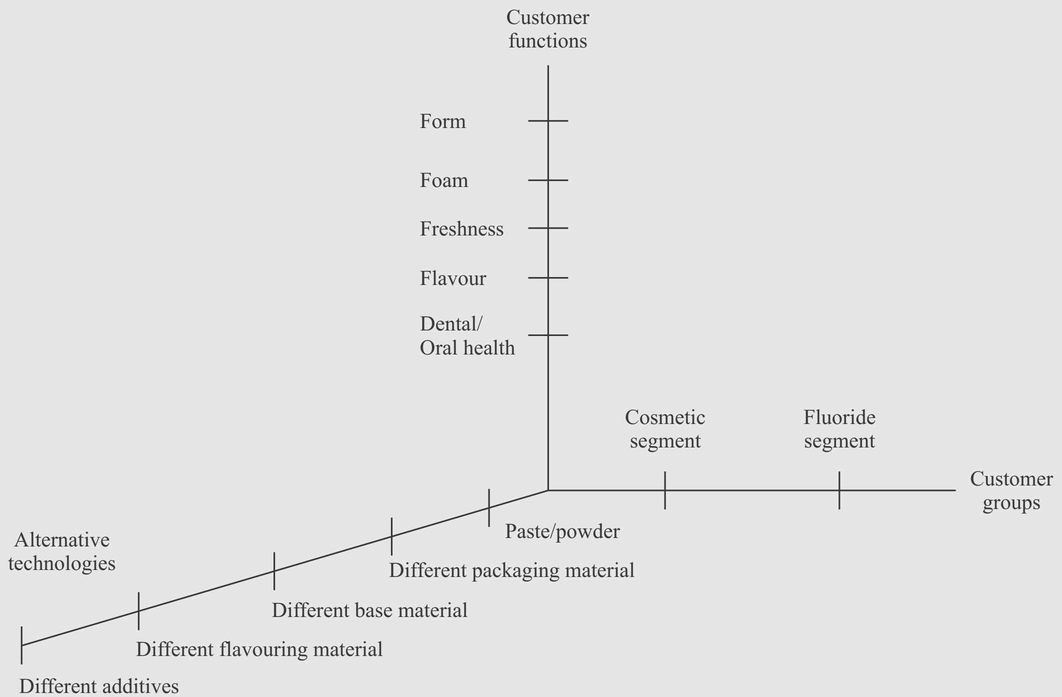


Exhibit 9.3 illustrates one way how this could be done for a company which is in the oral care business. Using a business definition, a company could generate alternatives by working forward from the present to the future position it wishes to be in. For instance, a company catering to the cosmetic segment could cover the fluoride segment as well. Other alternatives could be to use alternative packaging (e.g. collapsible tube) or different additives (e.g. clove oil or neem). In this way, even within the context of an industry or business, several alternatives can be considered.

Analysing the Strategic Alternatives

Narrowing down the strategic choice should lead to a few feasible alternatives. These alternatives have to be subjected to a thorough analysis. Such an analysis has to rely on certain factors. These factors are termed as selection factors. They determine the criteria on the basis of which the evaluation of strategic alternatives can take place.

The selection factors can be broadly divided into two groups: the objective and subjective factors. Objectives factors are based on analytical techniques and are hard facts or data used to facilitate a strategic choice. They could also be termed as rational, normative, or prescriptive factors. An example of an objective factor for selection is the market share, expressed as a per cent of the total market share, of a company's business in its industry. Subjective factors, on the other hand, are based on one's personal judgement, collective, or descriptive factors. An example of a subjective factor is the perception of company's top management regarding the prospects of the business in the next 2 to 3 years. The alternatives that are generated in the first step have to be subjected to analysis on the basis of these selection factors.

Evaluating the Strategic Alternatives

Selection factors are the criteria on the basis of which a final choice of strategy has to be made. Narrowing the choice leads to a few alternatives, each one of which has to be evaluated for its capability to help the organisation achieve its objectives. Evaluation of strategic alternatives basically involves bringing together the analysis done on the basis of the objective and subjective factors. Successive iterative steps of analysing the different alternatives on the basis of selection factors lie at the heart of such an evaluation. There is no set procedure and strategists may use any approach which suits the circumstances. It is important to observe that if we consider only the objective or subjective factors it does not help in evaluation. Both the factors have to be considered together. How this is done is of considerable interest to management researchers and academicians as it involves combining analysis with intuition and judgement.

Rumelt suggests four tests for evaluating strategies before they are ready to be implemented.[4]

1. *Consistency*: The strategy must not present mutually inconsistent goals and policies.
2. *Consonance:* The strategy must represent an adaptive response to the external environment and to the critical changes occurring within it.
3. *Advantage*: The strategy must provide for creation and maintenance of strategic advantage.
4. *Feasibility:* The strategy implementation may not be expected to use more resources nor create attendant problems arising out of implementation.

Choosing from Among the Strategic Alternatives

Evaluation of strategic choice should lead to a clear assessment of which alternative is the most suitable under the existing conditions. The final step is of making the strategic choice. One or more strategies have to be chosen for implementation. A blueprint has to be made that will describe the strategies and the conditions under which they would operate. This blueprint is the strategic plan which is discussed in the last section of this chapter. Besides the chosen strategies, some contingency strategies would also have to be devised. Contingency strategies are described later in this chapter.

The set of different analytical techniques used for considering the objective factors is discussed in the next section.

9.2 STRATEGIC ANALYSIS **LO 2**

Strategic analysis is the investigation of the objective factors being considered in the process of strategic choice. Questions such as these face the strategists of organisations in strategic analysis: which industries to enter and which ones to leave, which businesses to create/acquire/divest, which products and markets to retain/grow/divest? Strategic analysis is meant to help answer these questions.

Tools and Techniques for Strategic Analysis

Strategic analysis is a dynamic area of strategic management where new tools and techniques are continually being developed often replacing some of the older techniques. Exhibit 9.4 takes a peep into the exciting world of management tools and techniques. With internationalisation and digitalisation, the availability and usage of novel tools and techniques is likely to spread and increase.

Information technology (IT) has provided the benefit of having ready-made strategic planning software that use spreadsheets and templates for data, various types of reports, and plan formats. The popular technique of SWOT analysis, for instance, can be used with the help of software that provides templates for listing the strengths, weaknesses, opportunities, and threats and evaluating them.

Exhibit 9.4 The Exciting World of Management Tools and Techniques

The onslaught of globalisation, increasing competitiveness, rising complexity of doing business, and access to wide variety of sources of information are factors that prod managers to embark on a continual search for management tools and techniques that might have the potential for implementation and helping them in developing competitive advantage, increasing shareholders' wealth, and enhancing profitability for their organisations. Among these techniques many turn out to be mere fads in passing. Some of them remain as solid ideas worth considering and applying widely and consistently.

There are surprisingly a large number of management tools and techniques available. In one of the earlier studies by Hussey (1992), 57 techniques were listed. Clark's 1997 study considered 80 strategic management tools and techniques. In fact, the proliferation of tools and techniques has posed a problem of classification and creating taxonomies and categories.

The usage of management tools and techniques has attracted the attention of researchers. There have been studies on the usage of such tools and techniques by organisations globally as well as in specific countries. There have also been context-specific studies such as the usage of management tools and techniques in small and medium enterprises or agricultural cooperatives.

Bain and Company, a management consultancy organisation, have been performing a survey of management tools and trends since 1993. In each survey, they focus on 25 most popular techniques that managers around the world find to be relevant, topical, and measurable. The 2012 survey finds the most popular techniques to be of strategic planning. The other popular techniques are: customer relationship management, employee engagement surveys, benchmarking, balanced scorecard, core competencies, outsourcing, change management, supply chain management and vision and mission statements. As you will notice many of these management techniques are relevant for strategic management and strategic planning.

Unfortunately, we do not find such systematic empirical studies in the Indian context as yet. What we can know about the usage of management tools and techniques in India is only through what is reported occasionally in the business press and media and in journal articles and oblique references in studies related to other management topics such as trends in HR or marketing.

Sources: *Management Tools and Trends 2013* Bain & Company. This report along with its executive guide is available at *http://www.bain.com/publications/articles/management-tools-about-the-survey.aspx*. Retrieved 13 October, 2014; D.E. Hussey, 'Glossary of Management Techniques,' *International Review of Strategic Management,* 3(1992): 47–75; and D. N. Clark, 1997 'Strategic Management Tool Usage: A Comparative Study,' *Strategic Change,* 6, no. 7 (1997): 417–27.

There are myriad tools and techniques available to perform strategic analysis. Chapters 4 and 5 on environmental and organisation appraisals respectively dealt with many of these techniques. Environmental appraisal, for instance, uses the techniques of forecasting, SWOT analysis, and scenario-writing. Organisational appraisal is done by internal, comparative, and comprehensive analyses using techniques such as financial and non-financial analysis, value chain analysis, benchmarking, and balanced scorecard.

Strategic analysis can be done at two levels: the corporate and the business levels. Corporate-level strategic analysis treats a corporate entity as constituting a portfolio of businesses under a corporate umbrella. The analysis focuses on the question of what should a corporate entity do regarding the several businesses that are there in its portfolio. The strategic alternatives here are basically the corporate strategies of stability, expansion, retrenchment, and combination. It is to be noted that corporate-level strategic analysis is relevant to the case of a diversified corporation having several businesses. For companies that are single-business entities, business-level strategic analysis is sufficient.

Business-level strategic analysis focuses on individual businesses under the corporate umbrella from the perspective of the industry to which each of those businesses belong and on the unique competitive situations they face in their respective industries. The central theme in business-level strategic analysis is competition. The contexts for analysis are the markets and industries where organisations compete. The analysis here focuses on the question of what means should the organisation adopt with regard to its businesses. These means are the strategic alternatives of cost leadership, differentiation, and focus.

We provide further a description of the major corporate-level and business-level strategic analysis techniques.

Corporate Portfolio Analysis

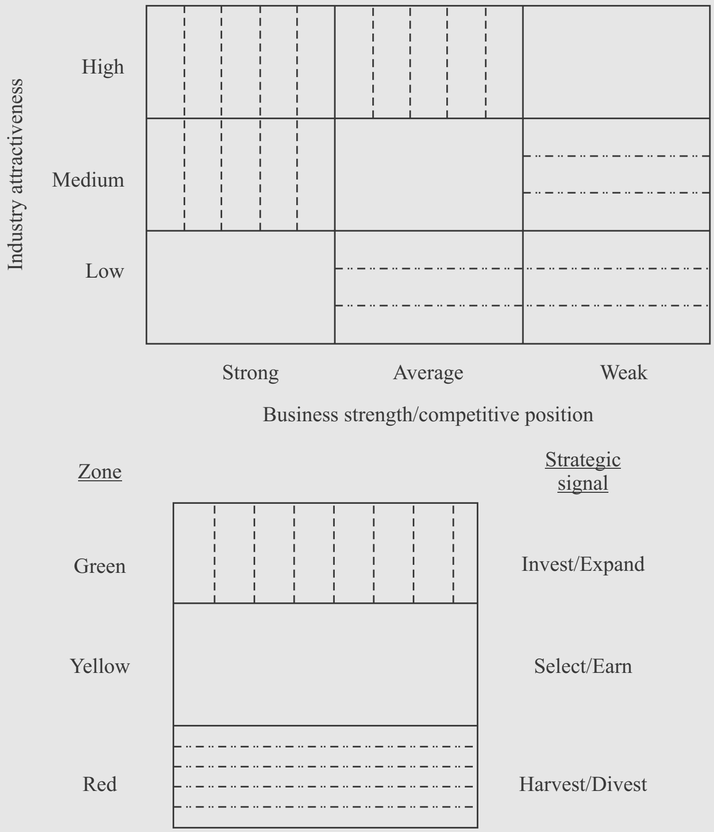
Corporate portfolio analysis (or simply, portfolio analysis) could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and strategic planning in multi-product and multi-business firms. They may also be used in less diversified firms, if these consist of a main business and other minor complementary interests. The main advantages in adopting a portfolio approach in a multi-product and multi-business firm is that resources could be targeted at the corporate level to those businesses that possess the greatest potential for creating competitive advantage. For instance, a diversified company may decide to divert resources from its cash-rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives in an optimal manner.

Corporate portfolio techniques evolved during the mid-1960s and several of these soon became quite popular. During the 1970s, there arose a tendency to discredit the techniques when it was realised that the assumptions underlying them did not always hold good.[5] Currently, however it is accepted that these techniques are useful, not as being purely prescriptive but as an important and decisive part of a set of criteria—normative as well as descriptive—that assist strategists in exercising a strategic choice.

There are a number of techniques that could be considered as corporate portfolio analysis techniques. Among them we have the Boston Consulting Group (BCG) or product portfolio, General Electric's (GE's) nine-cell matrix, Hofer's Product-Market Evolution, Directional Policy, and the Strategic Position and Action Evaluation matrices. Not all of these techniques retain their popularity and importance though. We will describe the General Electric's Nine-cell matrix as an illustration of the corporate portfolio matrices.

General Electric Nine-cell Matrix This corporate portfolio analysis technique is based on the pioneering efforts of GE supported by the consulting firm McKinsey. Exhibit 9.5 shows a typical GE nine-cell matrix. The vertical axis represents industry attractiveness, which is a weighted composite rating based on eight different factors. These factors are: market size and growth rate, industry profit margin, competitive intensity, seasonality, cyclicality, economies of scale, technology, and social, environmental, legal and human impacts. The horizontal axis represents business strength competitive position, which is again a weighted composite rating based on seven factors. These factors are: relative market share, profit margins, ability to compete on price and quality, knowledge of customer and market, competitive strengths and weaknesses, technological capability, and calibre of management.[6] As can be seen from the list of the factors, good use can be made of the industry, competitor, and SWOT analyses information for determining the weightage and rating to assign to each factor. The industry attractiveness and business unit strength are calculated by first identifying criteria for each, determining the value of each parameter in the criteria, and multiplying that value by a weighting factor. The result is a quantitative measure of industry attractiveness and the business unit's relative performance in that industry. The two composite values for industry attractiveness and business strength/competitive position are plotted for each business in a company's portfolio. The matrix also includes pie charts (or circles), not shown in the exhibit, to denote the proportional size of the industry and dark segments represent the company's market share.

Exhibit 9.5 General Electric Nine-cell Matrix



The nine cells of the GE matrix are grouped on the basis of low to high industry attractiveness, and weak to strong business strength. Three zones, of three cells each, are made, denoting different combinations represented by green, yellow, and red colours. For this reason, the GE matrix is also known as the stoplight strategy matrix. The different combinations can be seen from Exhibit 9.5. Based on the green zone, the signal is 'go ahead', to grow and build, indicating expansion strategies. Businesses in the green zone attract major investment. For the yellow zone, the signals is 'wait and see', indicating hold-and-maintain type of strategies aimed at stability and consolidation. For the red zone, the signals is 'stop', indicating retrenchment strategies of divestment and liquidation or rebuilding approach for adopting turnaround strategies.

The description of the GE nine-cell matrix, as an illustration of the corporate portfolio techniques, demonstrates the wide variety of measures included to construct the matrix so that managers can have a pictorial representation on the basis of which to decide the strategic alternatives to choose.

The GE nine-cell matrix offers some distinct advantages. It incorporates a large variety of strategic variables like the market share and industry size. The GE matrix is also a powerful analytical tool to channel corporate resources to businesses that combine medium to high industry attractiveness with average to strong business strength/competitive position. Other benefits include a more perceptive understanding of businesses leading to better strategic decisions and availability of an interesting vocabulary and graphic aids for communication.[7] On the other hand, the major drawback of the GE matrix is that it only provides broad strategic prescriptions rather than the specifics of business strategy.[8]

Like all analytical techniques, portfolio analysis has its drawbacks. Problems arise in measuring parameters like the actual growth rate of business. There are also organisational and motivational problems arising due to the adoption of recommendations emerging out of portfolio analysis.[9] Hill and Jones point out four major flaws of the portfolio techniques.[10] First, an assessment of businesses in terms of just two dimensions of market share and industry growth can be misleading as a number of other factors need to be taken into account. Second, the relation between relative market share and cost savings is not directly proportional; companies with low market share and focussed on a market niche could have a low operations cost. Third, a high market share in a low-growth industry does not necessarily result in large cash flow.Lastly, none of the portfolio techniques treat the source of value creation from diversification strategies. The strategic business units (SBUs) cannot be just treated as independent units as they are linked to the corporate headquarters and share skills and competencies. Real value may be derived from managing successfully a diversified portfolio of businesses rather than just putting together the 'right' portfolio of businesses.

Overall, corporate portfolio analysis can help companies that are running diverse businesses to develop feasible strategic alternatives and to allocate resources among them. In the application area, though corporate portfolio techniques are still considered as highly relevant, little is known about how much they are put into practice. Academic interest in these techniques is also low.[11]No organised evidence is available regarding the use and application of portfolio analysis techniques by Indian organisations. Research studies on corporate planning in Indian companies, through dealing with several issues, fail to take cognisance of the use of portfolio models.[12]

Corporate Parenting Analysis Campbell, Goold, and Alexander suggest that two issues must be addressed by the diversified corporation: (a) What businesses should a diversified corporation own, and why and (b) What organisational structure, management processes, and philosophy will foster superior performance from the corporation's individual business units?[13] They proposed the concept of corporate parenting to consider the role of the corporate headquarters in managing a set of businesses in a portfolio. They also postulated that organisations should strive to obtain parenting advantage so that the corporate headquarter is the best owner of for the businesses in the portfolio or sell businesses at best price to better owners. Parental advantage is to corporate strategies what competitive advantage is to business strategies.[14]

A diversified corporation or a multi-business company is often viewed as consisting of a corporate headquarter or centre with SBUs acting as satellites. The manner in which the centre manages and nurtures the individual businesses is termed as corporate parenting. The total corporation is viewed in terms of resources and capabilities that can be used to build individual businesses as well as create synergies across these businesses.In this manner, corporate parenting attempts to do away with one major drawback of the corporate portfolio techniques. While portfolio techniques consider the industry attractiveness of various industries and focuses on the cash contributions that each business could make to the overall portfolio of businesses, corporate parenting views the organisation in its totality as a diversified corporation and focuses on the value created from the relationship between the parent and its businesses.

SWOT Analysis

Every organisation is part of an industry. Almost all organisations face competition either directly or indirectly. Thus, the industry and competition are vital considerations in making a strategic choice. The industry provides the context in which an organisation operates while competitors vie for the same set of customers by offering more or less identical products. It is quite obvious that any strategic choice made by an organisation cannot be made unless the industry and competition have been analysed. Apart from the external forces that are present in industry and competitor analyses, it is useful to look inward and perform a SWOT analysis.

SWOT is the acronym for strengths, weaknesses, opportunities, and threats. Evolved during the 1960s at the Stanford Research Institute, SWOT analysis is a very popular strategic planning technique having applications in many areas including management. Organisations perform SWOT analysis to understand their internal and external environments. Through such an analysis, the strength and weaknesses existing within an organisation can be matched with the opportunities and threats operating in the environment so that an effective strategy can be formulated. An effective organisational strategy, therefore, is one that capitalises on the opportunities through the use of strengths and neutralises the threats by minimising the impact of weaknesses to achieve pre-determined objectives.

A simple application of SWOT analysis technique involves these steps:

1. Setting the objectives of the organisation or its unit
2. Identifying strengths, weaknesses, opportunities, and threats
3. Asking four questions
   (a) How do we maximise our strengths?
   (b) How do we minimise our weaknesses?
   (c) How do we capitalise on the opportunities in our external environment?
   (d) How do we protect ourselves from threats in our external environment?
4. Recommending strategies that will optimise the answers from the four questions.

The SWOT analysis is usually done with the help of a template in the form a four-cell matrix, each cell of the matrix representing the strengths, weaknesses, opportunities, and threats. The analysis for preparing the SWOT matrix could be done by a group of managers in a workshop session. The session could use the brainstorming technique for generating ideas about the SWOT factors. A typical SWOT analysis matrix for a hypothetical organisation is shown in Exhibit 9.6.

Exhibit 9.6 A Typical SWOT Matrix

STRENGTHS	WEAKNESSES
- Favourable location - Excellent distribution network - ISO 9000 quality certification - Established R&D Centre - Good management reputation	- Uncertain cash flow - Weak management information system - Absence of strong USP for major product lines - Low worker commitment
OPPORTUNITIES	**THREATS**
- Favourable location - Low technology options available - Possibility of niche target market - Availabitty of reliable business partners	- Unfavourable political environment - Obstacles in licensing new business - Uncertain competitors' intentions - Lack of sustainable financial backing

The SWOT analysis can be used to build a TOWS matrix as shown in Exhibit 9.7 to generate strategic alternative based on combinations of strengths, weaknesses, opportunities, and threats.

Exhibit 9.7 Generating Strategic Alternatives Through TOWS Matrix

Internal factors / External factors	Strengths (S)	Weakness (W)
Opportunities (O)	So strategies that will utilise strength while capitalising on opportunities	WO strategies that will minimise weaknesses while capitalising on opportunities
Threats (T)	ST strategies that will utilise strengths while neutralising threats	WT strategies that will minimise weaknesses while neutralising threats

The SWOT analysis has several benefits, among the major being:

- Simple to use
- Low cost
- Flexible and can be adapted to varying situations
- Leads to clarification of issues
- Development of goal-oriented alternatives
- Useful as a starting point for strategic analysis

The following could be the pitfalls of using SWOT analysis indiscriminately:

- Simplicity of use may turn to be simplistic by trivialising the reality that may be more complex than represented in SWOT matrices
- May result in just compiling lists rather than think about what is really important for achieving objectives
- Usually reflect an evaluator's position and viewpoint that can be misinterpreted to justify a previously decided course of action rather than used as a means to open new possibilities.
- May encourage organisations to take a lazy course of action of looking for strengths that match opportunities rather than developing new strengths that could match the emerging opportunities
- There's some probability that strengths may be confused with opportunities or weaknesses with threats

The process of strategy formulation starts with, and critically depends on, the appraisal of the internal and external environment of an organisation.

The environmental as well as organisational appraisal (Chapters 4 and 5) dealt with the opportunities, threats, strengths, and weaknesses relevant for an organisation. The two profiles ETOP (Environmental Threats and Opportunities Profile) and SAP (Strategic Advantages Profile) that we have prepared should now be brought together and analysed so that feasible strategic alternatives can emerge.

Exhibit 9.8 Consolidated SWOT Profile for a Bicycle Company

ETOP	Sector impact	SAP	Impact factor
Economic	↑		
Market	→	Finance	↓
International	↓	Marketing	→
Political	→	Operations	↑
Regulatory	→	Personnel	→
Social	↑	Information management	↑
Supplier	→	General management	↑
Technology	↑		

Up arrows indicate favourable impact; down arrows indicate unfavourable impact, while horizontal arrows indicate a neutral impact.

Sources: ETOP is based on Exhibit 4.12 while SAP is drawn from Exhibit 5.13.

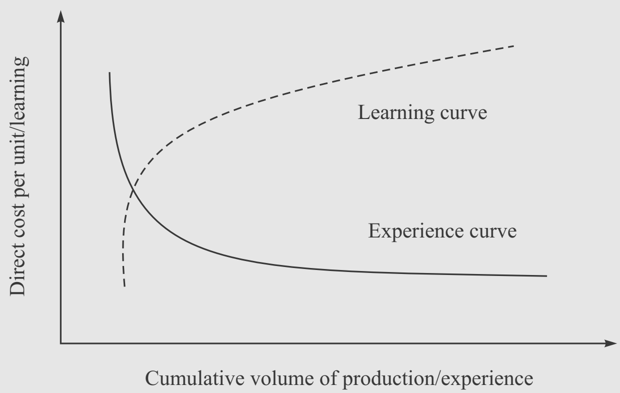
Exhibit 9.8 consolidates the ETOP (Exhibit 4.12) and SAP (Exhibit 5.13) which had been prepared for a hypothetical sports cycle manufacturing company. SWOT analysis can be applied in order to generate feasible strategic alternatives. Based on information contained in Exhibit 9.8, it can be said that expansion strategies seem to be more likely. The socioeconomic factors are supportive while market opportunities exist in both the domestic and international markets.Based on a fortuitous match between the technological and supplier environment on the one hand, and operations-related internal factors on the other, the firm is most likely to be a high quality producer. The company's inherent strength in operations and quality-related matters can stand the firm in good stead in its local marketing and exports efforts. General management can take proactive steps in order to sustain marketing efforts. Information systems seem to be under-utilised. E-commerce opportunities could well be explored if the website is redesigned to be more interactive and there are logistics system changes to back-up supply lines. Good personnel may prove to be of value in various activities that the firm undertakes. Finance is the major problem area and cannot be neglected at any cost. It is quite possible that major investments have been made in the recent past in the plant, equipment, and facilities and the pay-off may be expected in the long run. In such a case, the financial problems can be assumed to be of transient nature. Should this be true, the firm can hope to overcome its negative financial features provided it adopts prudent financial policies in the near future. Expansion strategies, albeit through a cautious approach, seem to offer a feasible approach to strategy formulation. Of course, expansion itself could take place through various means. For instance, internal expansion could be possible if the firm is in a position to garner additional financial resources. If this is difficult, then external expansion may be the way out. Export markets offer an attractive option where currently Chinese products face a relative disadvantage in terms of quality perceptions. This company can leverage its internal strength in quality and make sustained efforts at exploring new export markets besides the African markets it presently caters to. Depending on whether other units are available for acquisition, the firm could contemplate a takeover. But this would again require immediate resources. Expansion strategies could be preceded by a short period of stability also if the financial position can improve in the meantime.

The analysis attempted in the previous paragraph can be continued till the strategists are able to shortlist feasible strategic alternatives. Of course, the line of thought adopted by others may be different from that followed by us. But it can be safely assumed that since the SWOT profiles are the same, different analysts are likely to reach more or less the same set of conclusions. Much would depend on other factors, for instance, the willingness of the management to task risks. But factors like these will be discussed in the next section. A good and meaningful SWOT analysis is likely to bring out a few feasible strategic alternatives. These could be subjected to further analysis based on subjective factors that are discussed later in this chapter.

Experience Curve Analysis

The concept of the experience curve is akin to a learning curve which explains the efficiency increases gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit cost declines as a firm accumulates experience in terms of the cumulative volume of production. In simple terms, the more a company produces the more experience it accumulates. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign, and technological improvements in production.[15] Experience and learning curves are shown in Exhibit 9.9.

Exhibit 9.9 Experience and Learning Curves



According to the experience effects theory, if a business produces and sells more units than its competitors it should also be honing its ability to produce them better than its competitors. By producing better means that the products are of better quality and are also produced at a lower comparative cost. With lower costs, pricing can be done competitively thus attracting greater volume of sale which in turn further lower costs. In this manner, a beneficial, self-perpetuating cycle results that brings in more sale to the experienced producer. Obviously the logic of the experience curve dictates that lower costs lie in focussing on mass markets. Thus, firms that employ the business strategies of being the first-movers in an industry and capitalise on their experience to lower costs and garner higher market share than their competitors are destined to gain competitive advantage. These firms adopt the business strategy of cost leadership in the industry. However, experience curve has a limited appeal since specialisation offers an alternative route to lower costs. Firms employing the differentiation business strategies rely on a narrow range of products and markets specialising in catering to a niche market which are not found viable by the larger players in the industry. Such firms are often second-movers or late-movers to an industry. The larger players in the industry would prefer the cost leadership route to reap the advantages of the experience curve.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered to be a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition. Thus, experience curve yields competitive advantage to a firm if it is a first-mover in an industry and is successful in cornering a large market share.

Life Cycle Analysis

Students of management and allied areas are quite familiar with the concept of the product life cycle. Likewise, life cycles are found in markets, businesses, and industries. Life cycle is a conceptual model that suggests that products, markets, businesses, and industries evolve through sequential stages of introduction, growth, maturity, and decline. From the viewpoint of strategic analysis it is important to note that as life cycles move from one stage to the next the strategic considerations too change.

Let us take the case of the familiar product life cycle (PLC). Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect to time for a product that passes through the four successive stages of: introduction (slow sales growth), growth (rapid market acceptance), maturity (slowdown in growth rate), and decline (sharp downward drift). If markets, businesses or industries are substituted for product, the concepts of PLC could work just as well.

The main advantage of life cycle concept is that it can be used to diagnose a portfolio of products (or markets, businesses or industries) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice could be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this, way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the life cycle concept.

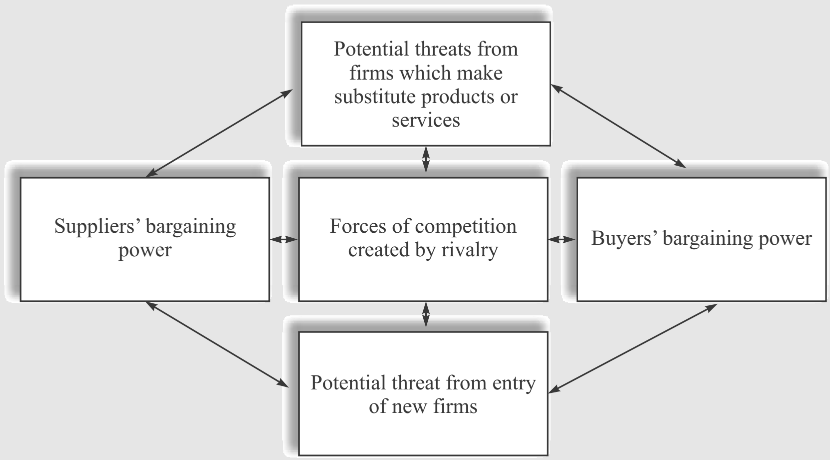
The life cycle concept provides a useful framework for analysis for the formulation of business-level strategies as demonstrated in the previous paragraph. Section 7.4 also discussed the business strategies under different conditions in embryonic, growth, maturity, and decline stages of an industry. Essentially the benefit of the life cycle concept lies in its ability to provide strategists a convenient method of devising a broad approach to business strategy formulation on the basis of the understanding of the stage of the life cycle a business is at a particular point of time. Here it is significant to note that the life cycle concept is not to be used as a guide to *when* a change occurs in the life cycle. Rather it is a useful guide to *what* changes might occur over a period of time with regard to the market or industry conditions. Further, it is also important to remember that the life cycle can sometimes be reversible as seen in the case of products that are revived after a declining trend. Products, markets, businesses, and industries sometimes experience reverse trends as happens often in the case of fashion when discarded dress fashions again come in vogue. Strategists need to be aware of the possibility of such reverse trends in the life cycle.

Industry Analysis

An industry is a group of companies offering products or services that are same, similar, or close substitutes of each other. The sameness, similarity, and closeness as substitutes can be judged by determining whether the products or services satisfy the same basic customer need. According to this interpretation of industry, there could be a leisure industry serving the customer need for rest, relaxation, and spending vacations or holidays pleasurably or mobility industry serving the customer need of transportation.

Michael E. Porter has made immense contribution to the development of the ideas of industry and competitor analysis and their relevance to the formulation of competitive strategies. He advocates that a structural analysis of industries be made so that a firm is in a better position to identify its strengths and weaknesses. A model has been proposed consisting of five competitive forces—*rivalry among competitors, bargaining power of suppliers, bargaining power of buyers, threat of new entrants, and threat of substitute* *products*—that determine the intensity of industry competition and profitability.[16] Exhibit 9.10 depicts Porter's five forces model of competition.

Exhibit 9.10 Porter's Five Forces Model of Competition in an Industry



A description of each of these five forces follows.

Rivalry among competitors Competition is a game in which normally one player loses at the expense of the other. A move made by a player may cause other players to make countermoves or initiate efforts to protect themselves from the danger posed by the initial move. In this manner, firms within an industry are mutually dependent. The situation in an industry keeps changing with the actions and reactions of the constituent firms. The desire to be the market leader or to corner a larger market share leads to rivalry among competitors. The extent of the rivalry among competitors in an industry affects the competition within that industry. When the rivalry is weak, there is likely to be lesser competition; when such rivalry is high the level of competition is higher. This has implications for existing firms as well as those firms contemplating entry into the industry.

The dimensions of rivalry among competitors are several. Some of the major ones are described as follows:

- *Competitive structure* refers to the number of competitors, their size, and their diversity. Different types of competitive structures have different implications for the existing firms and for the new entrants. Structures could either be fragmented or consolidated. A *fragmented* structure means that there are a large number of small or medium-sized companies, none of them in a position to dominate the industry. This structure is characterised by low entry barriers and less or no differentiation leading to products becoming commodities. Competition is intense and the industry faces booms and busts leading to frequent changing of the structure. A *consolidated* structure consists of a few large companies (an oligopoly) or just one large firm (a monopoly). Such a structure has a closely knit group of companies whose actions and reactions are matched: the actions of one lead to reactions from others. Competitive actions of the competitors are under close watch by the others as they affect the distribution of market share. The intensity of competition may range from benign tolerance to fierce rivalry. In some industries, the competitors may adopt a policy of 'live and let live' while in others there might be cut-throat competition leading to under-pricing or severely fought competitive battles on the basis of other factors such as delivery, advertising, or after-sale service. *Diversity* among competitors means that different firms in an industry have different ideas on the basis of which to compete, different set of goals to achieve, or different organisational cultures. An industry with greater diversity poses a higher potential challenge to existing firms or new entrants for devising competitive strategies.

- *Demand conditions* refer to the nature of the customer demand existing in an industry. A high demand or a growing demand tends to moderate competition as each firm has enough for it and need not grab it from others. Stagnant demand may lead to competitive strategies designed to snatch market share from others. Declining demand may cause companies to maintain market share. Existing firms or new entrants need to take the demand conditions in the industry into account for the purpose of formulating business strategies.
- *Exit barriers* restrict the firms in an industry and prevent them from leaving even though the returns might be low or might even be sometimes negative. The exit barriers are economic, strategic, or emotional factors preventing companies from moving out after divestment of their businesses. Economic factors could be high investments committed to plant and equipment that have no alternative usage, and high fixed costs of exit, such as, high retrenchment costs or high severance pay owing to labour agreements. Strategic factors could be interlinkages between the different businesses of a company such as a firm being its own supplier or buyer or different businesses sharing common pool of resources. Emotional factors could be a sentimental attachment to a business it being an ancestral business or one founded by the entrepreneur on his own, or unwillingness to part with a business owing to loyalty to employees or distributors.

Collectively, the three factors of competitive structure, demand conditions, and exit barriers determine the business strategies that a firm is likely to adopt.

As we described these three factors constituting the force of competitive rivalry within an industry, you must have noticed that business strategies are critically dependent on the industry environment. The nature of industry environment varies across industries and also with time. There might be embryonic or introductory industries, growth or sunrise industries, mature or stable industries, and declining or sunset industries. Each of these industries would require a different approach to formulation of business strategies as described in Section 7.4. It is also important to note that industries respond to time and follow a life cycle. An industry today in the mature stage might tomorrow be a declining industry. Here again it is important for firms to align their business strategies to the changing conditions in the industry environment. The competitive equations change, so do the demand conditions. Entry barriers erected today may fall by the wayside as soon as some new development takes place. Such is the dynamic nature of strategic management where anything that a firm might do today does not guarantee success tomorrow unless there is a willingness to respond to environmental conditions as they arise in between.

Bargaining power of buyers The bargaining power of buyers constitutes the ability of the buyers, individually or collectively, to force a reduction in prices of products or services, demand a higher quality or better service or seek more value for their purchases in any way. A high buyer bargaining power constitutes a negative feature for existing firms or new entrants of an industry. A low buyer bargaining power enables a firm to pass on the cost escalation to buyers or to make the buyers accept lower quality of product and service at a higher price.

The bargaining power of buyers is high under these conditions:

- When the buyers are few in number
- When the few buyers place large orders individually
- When alternative suppliers are available and are willing to supply at a lower price or on favourable selling conditions

- When the switching costs of buyers from one supplier to the other is low
- When the buyer itself charges a low price for its products and is sensitive to price increases
- When the purchased product constitutes a high percentage of a buyer's costs making it look around for lower-priced supplies
- When the buyer itself has the ability to integrate backwards and create its own captive supply source

Bargaining power of suppliers Like bargaining power of buyers, firms that supply to an industry could also have bargaining power. The bargaining power of suppliers constitutes their ability, individually or collectively, to force an increase in price of their supplies or make the buyer firms accept a lower supply quality. A high supplier bargaining power constitutes a negative feature for existing firms or new entrants of an industry. A high supplier bargaining power enables a supplier firm to pass on cost increases to buyer firms in an industry or to make thosefirms accept lower quality of supplies at a higher price.

The bargaining power of suppliers is high under these conditions:

- When the suppliers are few and the buyers are many
- When the supplies are unique and are not commonly available
- When the substitutes of the supplies are not freely available
- When the switching costs of a supplier from one buyer to the other is low
- When the supplier is not critically dependent on the supplies
- When the buyer buys in small quantities and, therefore, is not important to the supplier
- When the suppliers have the ability to integrate forward and use their own supplies for production of the end product or service

Threat of new entrants Any industry that is perceived as being profitable tends to attract new entrants. These new entrants are firms that are interested in investing in the industry to share the growth prospects. Such new entrants augment the existing production capacity and often possess a desire to make large investments and secure substantial market share. The existing firms have either to share a growing market pie with a larger number of competitors or part with some of their own market share to the new entrants. Either way, new entrants may cause comparatively lesser sales volume and revenue and lower the returns for all the firms in the industry.

The chance that new entrants enter into an industry depends on two factors: the entry barriers to an industry and the expected retaliation from existing firms. Of these, entry barriers are significant demotivators for new entrants. The concept of entry barriers implies that there are substantial costs involved in entering into an industry. The higher the entry barriers in an industry the less likely are new entrants entering that industry. So, higher entry barriers serve to keep out potential entrants away from an industry.

The entry barriers may arise as a consequence of several factors such as those given as follows:

- *Economies of scale* in production and sale of products leading to lower costs for existing firms
- *Capital requirements* being very high may prevent new entrants from making investments
- *Switching costs* from the existing products or services to a new one may discourage customers from making new commitments owing to costs incurred in buying new ancillary equipment, retraining employees, or establishing new networks of relationship
- *Product differentiation* by existing firms based on perceived distinctiveness by the customers based on effective advertising, reputation as a service provider, brand loyalty of customers towards existing firms or some such other factor
- *Access to distribution channel* can be monopolised by existing firms on the basis of their long-term relationship with distributors
- *Cost disadvantages independent of scale* may arise from proprietary products technology, exclusive access to raw materials, favourable location, and benefit of governmental subsidies

- *Government policies* through licensing and other means can prevent entry of new firms to an industry

Besides the entry barriers, the expected retaliation to the new entrants from the existing firms may be a potential threat to entry. Any potential entrant to an industry would have to predict the likely moves that existing firms could make. For instance, an existing firm with large stake in the industry may lower price to create a difficult situation for the new entrant. Or an existing firm with substantial resources may attempt to alter the basis of competition so that the new entrant is discouraged in making a foray.

Despite the formidable hurdles posed by existing firms, new firms do enter industries if they find them to be promising. The popular strategy for doing so is finding market niches not served by existing firms and to gradually build up a presence in the industry.

Threat of substitute products Substitute products or services are those that apparently are different but satisfy the same set of customer needs. A common example is of tea and coffee as substitutable products. We could also include aerated drinks as another form of substitute in the category of products serving the customer needs for drinks. Other examples of substitute products and services could be alternative modes of transportation, postal, fax and courier services, and electrical gadgets like bulbs and tubelights. The platform for substitutability in every case is the serving of the customer need.

The availability of close substitutes constitutes a negative competitive force in an industry. In other words, those industries which have no close substitutes are more attractive for firms than those that have one or more of such substitutes. Obviously, firms in an industry having no close substitutes can charge a higher price and earn higher returns. For industries where close substitutes are available the level of price of products chargeable is restricted by the price of the substitute available. Thus, firms have to formulate their business strategies keeping in view the intensity of the competitive force arising out of the presence or absence of the threat of substitutes.

With this, we come to an end of the discussion of the five forces of competition in an industry. Let us now look at an analysis of the five forces operating in an industry in India. Exhibit 9.11 presents an analysis of the Indian paints industry (*circa* 2015). Note how the five competitive forces operate in the context of this industry.

Exhibit 9.11 Porter's Five Forces Operating in the Indian Paints Industry

Market research agencies and industry associations are unanimous in their opinion that Indian paints industry is growing at a healthy rate and is destined to make good progress over the next several years. Low per capita usage of paints in India offers good scope for demand expansion. The growth in the market is driven by growth in infrastructure, rising urbanisation, rising demand in rural markets, emergence of the middle class, increase in the ability and willingness to spend, and a growing young population no longer constrained by the austere lifestyle of the older generation. The critical success factors for the industry are identified as: aggressive marketing, branding, distribution reach, innovative use of technology, product innovation, and value-added services.

The analysis of the industry profile of the Indian paints industry yields some interesting results for the Porter's five competitive forces. These five forces are described as follows:

1. *Rivalry among existing firms:* The Indian paints industry is divided into decorative and industrial paints in terms of market segmentation and organised and unorganised sectors on the basis of the type of organisations. Decorative paint makes up more than 75 per cent and industrial paint the balance of about 25 per cent. The fragmented unorganised sector serves nearly 35 per cent of the market. The balance of 65 per cent is served by the organised players major among them being Asian Paints, Berger Paints, Kansai Nerolac, and Akzo Nobel. Most of the unorganised sector units are in decorative segment due to low technology differentiation. The industrial paints segment is dominated by the organised sector due to its high technology orientation. The organised sector is characterised by stiff competition backed by aggressive marketing, large advertising campaigns, and strong distribution networks. Shalimar Paints is the industry first-mover. Asian Paints is the

market leader in decorative segment. Kansai Nerolac is the leader in industrial segment. Competition in unorganised sector is mostly on the basis of pricing. There is a level-playing field of competition between organised and unorganised sector with decreasing differential of excise duties with the latter losing out market share to organised sector.

2. *Bargaining power of buyers:* The major sub-segments in decorative paints are exterior wall emulsions; enamels including primer, thinner, and distemper; and wood coatings. In the industrial paints buyers' needs are for automotive original equipment manufacturers (OEMs), protective coatings, auto refinish, and powder coatings. Supply exceeds demand both in the decorative and industrial market segments. With tough competition within the industry and competitors vying for the buyer's spending, the bargaining power of buyers has risen over the years with them becoming more choosy requiring companies to pamper them with wider choice and innovative marketing tactics. Industrial paint buyers buy in bulk making them stronger in negotiating price and delivery. It is difficult for paint companies to pass on cost increases in view of tough competitive conditions.
3. *Bargaining power of suppliers:* The paints industry is critically dependent on raw materials (solvents, resins, pigments and additives) that constitute around 50 per cent to 70 per cent of the total production cost. These have a significant impact on the margins in an industry that is increasingly becoming a commodity business in the decorative paints segment. A large number of nearly 300 raw materials, half of them petro-based derivates, sourced from suppliers make the paints companies critically dependent thereby creating higher bargaining power of suppliers.
4. *Threat of new entrants:* There is no perceptible threat of entry of new entrants as paints is a mature industry in India. On the contrary, some smaller units in the unorganised sector may be pushed out owing to rising raw material costs and inability to keep up with technology development. In the organised sector, the existing four players are well-entrenched. Distribution network is a major entry barrier to new entrants with existing players linked closely with the large number of distributors and retailers. Foreign companies do not find competing in low-margin decorative paints that is the mass market in India though foreign players like the Jotun Paints, National Paints, Nippon Paints, and Sherwin Williams have set up base in India. They prefer entering Indian markets through strategic alliances with existing players. Indian paint companies have made forays into foreign markets especially in the developing countries.
5. *Threat from substitute products*: Since times immemorial, rural areas in India have used liquefied dung—cheap, readily-available, and environment-friendly paint—as a coating for the interior and exterior walls for their humble dwellings. Modern solvent-based paints have replaced them. There is now a reverse trend of finding non-toxic environmental-friendly, water-based paints. However, in the near future there did not seem a perceptible threat of any type of substitutes emerging as replacements for either decorative or the industrial paints.

Paints industry in India is closely linked to economic indicators and demand is dependent on several external factors such as good monsoons, raw material prices, demand in user industries such as automobiles and real estate making it a dynamic industry.

Sources: 'Paint Market to Grow 20 per cent Annually in Next Two Years,' *Business Standard* (5 September, 2014) available at *http://www.business-standard.com/article/companies/indian-paint-market-set-to-grow-20-cagr-in-two-years-on-rapid-urbanization-114090500527_1.html; Website of Indian Paints Association at http://www.ipaindia.org/;* 'Indian Paint Industry Outlook 2014-2018,' Normans Media Ltd, Coventry and 'Research and Markets: India Paint Industry Outlook 2014-2018,' *Business Wire*, New York, 17 September, 2014. All websites accessed on 16 October, 2014.

The purpose of industry analysis, in the context of strategic choice, is to determine the industry attractiveness, and to understand the structure and dynamics of the industry with a view to finding out the continued relevance to strategic alternatives that are there before a firm. It follows that, for instance, if the industry is not, or no longer, sufficiently attractive (i.e. it does not offer long-term growth opportunities) then the strategic alternatives that lie within the industry should not be considered. It also means that alternatives may have to be sought outside the industry calling for diversification moves.

Criticism of five forces model The basic criticism of Porter's model of five forces arises from the difficulty of defining the limits of an industry. Standard classifications of industry, such as the National Industrial (Activity) Classification in India[17], do not suffice as they fail to keep with the times especially when convergence of industries makes some industries obsolete. The second point of criticism is that several firms doing industry analysis and reaching more or less the same conclusions may render the attractiveness of that industry redundant. The third point is that Porter's model implicitly assumes that relationship of firms with their buyers and suppliers are necessarily antagonistic which may not be true. In fact, as strategic alliances show relationship—even among rival firms —may be collaborative. Finally, the point of criticism is about the fundamental nature of industrial organisation perspective on which Porter's theory is based. That perspective is challenged by the alternative resource-based view perspective. This means that firm characteristics rather than industry characteristics may be stronger determinants of competitive advantage.[18]

Using the five forces model of industry competition, a firm can analyse its critical strengths and weaknesses, its position within the industry, the areas where strategic changes may yield the maximum profits, and the significant opportunities and threats.[19]

Strategic Groups' Analysis

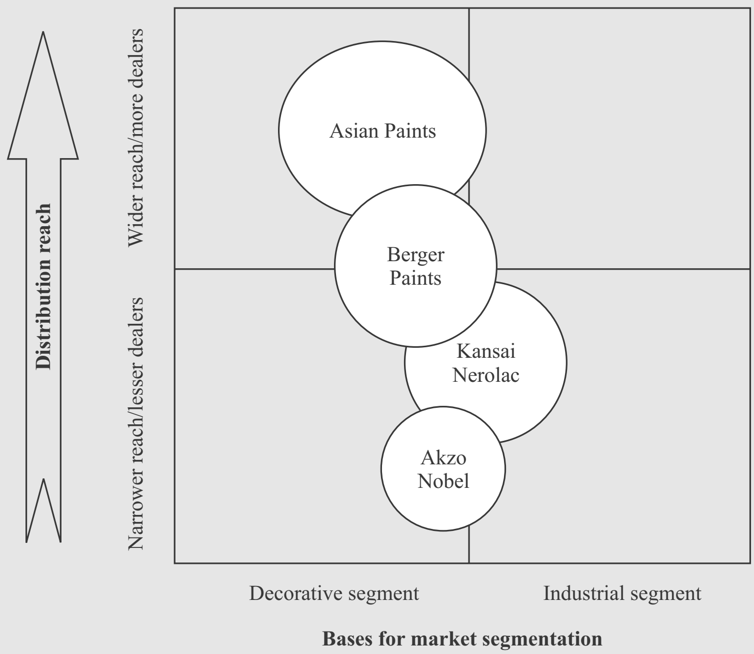
Strategic groups are 'conceptually defined clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry'.[20] They are conceptual as they are not formally identified groups or part of an industry association. Rather they are identified on the basis of a set of strategic dimensions such as technological leadership, the degree of product quality, pricing policies, the choice of distribution channels, and the degree and type of customer service.[21] These strategic dimensions define a firm's business strategy in an industry. So, if in an industry the competitors can be grouped according to similarities of strategy then they constitute a distinct strategic group. In essence, the theory of strategic groups argues that within an industry, firms with similar asset configurations will pursue similar competitive strategies with similar performance results.[22]

Industries may vary according to the business strategies that are employed by their constituent firms. Some industries are homogenous such that the constituent firms follow similar strategies and business models and so they could be grouped into one single strategic group. On the other hand, some industries tend to be heterogeneous as they consist of multiple strategic groups. Each of these strategic groups would have firms that follow different strategies than those in other groups. If we think of strategic groups making up an industry, it would be erroneous to consider all industries as similar and conduct an industry analysis on the basis of this assumption. Strategic group analysis serves the purpose of identifying the strategic groups and then analysing the industry from the viewpoint of the differences in the business strategies employed. This facilitates a direct comparison among the group of firms that compete directly with each other. A research study, for instance, classifies the Indian pharmaceuticals companies into five strategic groups: exploiters (e.g. Neuland Labs), explorers (e.g. Cipla), outsourcers (e.g. Dishman Pharma), emerging globals (e.g. Dr. Reddy's), and globals (e.g. Ranbaxy).[23] Based on the logic of strategic groups, it would be futile for Cipla to compete with Dishman. It would do better for it to compete with other firms within its own group of explorers.

Taking the case of the Indian banking industry, one could make a simple classification of banks in three categories of public sector, private sector, and foreign banks. But this may not be an appropriate classification for the purpose of industry and competitor analysis. One has to be, therefore, cautious to group together banks, irrespective of the categories they belong to, in terms of the similarities in their strategies. For instance, Corporation Bank is a public sector bank but seemed to have adopted business strategies quite similar to those adopted by the private sector and foreign banks. Likewise, the Investment ICICI Bank and HDFC Bank—both private banks—seem quite similar at a superficial level yet they are quite different when it comes to strategic approach adopted. While the ICICI Bank aimed to become a universal bank through attaining a large size, HDFC Bank aimed at optimum revenue generation.[24] A rigorous research study that included identification of strategic groups in Indian banking industry grouped 68 banks into strategic groups based on selected key financial indicators. The Indian private bank ICICI finds itself in the company of foreign banks such as the Bank of America and the Citibank in the same strategic group. The Corporation Bank is placed with sister public sector banks Punjab and Sind Bank (P&SB) and Dena Bank with the foreign bank Credit Agricole IndoSuez in the same strategic group.[25]

Strategic groups can be visualised by means of strategic group mapping. Based on identification of firms in an industry and the strategic considerations that they take into account while competing, it is possible to create a strategic group map. Such a map is shown in Exhibit 9.12 where four major competitors are shown in a simplified illustration based on two strategic considerations of decorative and industrial market segments and the extent of distribution reach.

Exhibit 9.12 Illustration of Strategic Group Mapping for Indian Paints Industry



Note: Distribution reach in terms of number of dealers; size of circle proportional to relative market share in paints industry

Strategic group analysis serves the useful purpose of identifying and classifying the firms on a basis that really matters. It also does away with a limitation of the five-forces competitive or analysis in differentiating between firms that compete directly with those that do not. Industry and competitor analysis can become more meaningful when done on the basis of strategic groups' identification.

Competitor Analysis

While industry analysis and strategic group analysis focus on the industry as a whole or on subsets of firms within an industry, competitor analysis focuses on each company with which a firm competes directly.

Competitor analysis, therefore, deals with the actions and reactions of individual firms within an industry or strategic group. It becomes especially important in the case of oligopolistic industries where there are a few powerful competitors and each needs to keep track of the strategic moves of the others.

According to Porter, the purpose of conducting a competitor analysis is to:[26]

- determine each competitor's probable reaction to the industry and environmental changes;
- anticipate the response of each competitor to the likely strategic moves by the other firm; and
- develop a profile of the nature and success of the possible strategic changes each competitor might undertake.

Components of competitor analysis A competitor response profile can be built on the basis of the four components of competitor analysis. These four components are: future goals of competitor, its current strategy, and the key assumptions that the competitor makes about itself and about the industry, and its capabilities in terms of strengths and weaknesses. We briefly describe each of these components here in terms of the questions that need to be posed to describe them.[27]

- *Future goals of competitor* deal with questions such as these: How do our goals compare to our competitors' goals? Where will emphasis be placed in the future? What is the attitude toward risk?
- *Current strategy of competitor* deals with questions such as these: How are we currently competing? Does this strategy support changes in the competition structure?
- *Key assumptions made by competitor* deal with questions such as these: Do we assume the future will be volatile? Are we operating under a status quo? What assumptions do our competitors hold about the industry and about themselves?
- *Capabilities of competitor* deal with questions such as these: What are our strengths and weaknesses? How do we rate compared to our competitors?

Based on a thorough analysis of these components, a response profile can be prepared for each competitor that can help predict their likely strategic moves which can either be of an offensive or defensive type. The response profile could be based on a firm asking questions such as these: What will our competitors do in the future? Where do we hold an advantage over our competitors? How will this change our relationship with our competitors? The information collected in the response profile is a vital input for the purpose of business strategy formulation by any organisation.

It must be noted that the approach outlined earlier is a highly structured and systematic one and can be used profitably where competition is an important consideration in strategic choice. In India, competition is not new to industry but it has been particularly pronounced after the successive liberalisation measures taken by the government after 1984, particularly after 1991. Supply has exceeded demand in industries and companies have overhauled their marketing strategies to be able to compete well in the market. The case of two-wheeler and four-wheeler industries is illustrative of the changing scenario of competitiveness. Waiting lists for scooters and cars were a common phenomenon prior to the 1990s but now these markets have become highly competitive. Another case is of the FMCG industry, in general, where competitiveness in several sub-sectors such as soaps and detergents, cosmetics, and bakery and confectionery products has increased by leaps and bounds. It is in such a scenario that competitor analysis becomes relevant.

Refer to Exhibit 9.11 on the Porter's five forces analysis of the Indian paints industry and note that the level of competition has increased. Looking to the moves and countermoves of the top two companies it is observed that the Asian Paints dominates the decorative paints segment of the paints industry in India. The Kansai Nerolac retains its market leadership in the industrial paints segment. Generally the companies in the Indian paints industry were attempting to create a balance among the two segments so that they did not face the extreme demand fluctuations of either of the two segments. The Kansai Nerolac's change of business strategy of refocusing on the decorative paints segment in order to take advantage of its brand value can be seen in this context. This move constitutes a competitive threat to others specially the Asian Paints which has also been investing in industrial paints portfolio where it has a good hold in the automotive coating segment. Among the two, the Asian Paints is stronger in terms of cost reduction, marketing and distribution infrastructure, and global reach. It has also gained from the consolidation of the paints industry in India. The competitive situation has created a situation where branding, distribution, and product quality have become significant. In their effort to avoid paints becoming a commodity, the companies are positioning as fast-moving consumer goods (FMCG) companies trying to build brands and fulfil the role of painting solutions consultants.[28]

There is very less information available regarding the means adopted by companies to keep track of their competitors. But many executives and industrialists admit that they do rely on their business and marketing intelligence system to collect information regarding the probable strategic moves by their competitors. Besides this, companies tap various formal as well as informal sources for the purpose.

Competitor analysis is important because competitive forces shape the strategies adopted by rivals and because these strategies of rival firms, in turn, shape the competitive forces. It is useful for a firm if it takes the results of competitor analysis into account while exercising a strategic choice.

9.3 SUBJECTIVE FACTORS IN STRATEGIC CHOICE **LO 3**

If the world were utterly logical, strategic choice would simply be a rational, systematic process of finding alternatives, analysing and evaluating them, and choosing the best one. Strategic analysis and the techniques that we discussed in the previous section may make the process of strategic choice seem too mechanistic to some of us. But, in reality, it is not so. In practice, strategic choice results from integration of analysis and intuition and is thus more grounded in reality.

It is widely accepted that strategic decision-making is a complex activity. No one set of factors can be sufficient for exercising a strategic choice. How strategists actually make a choice among several alternative strategies has been a subject of considerable interest to researchers in management in general and strategic management, in particular. The process of strategic decision-making and some schools of thought on strategy formulation demonstrate that the process of strategy formulation is not entirely an analytical process but takes into account the non-analytic or subjective factors too.

Applying intuition to strategic choice enables managers to use their experience, judgement, and feelings. These are valuable as they are useful in situations of high uncertainty or where precedents of similar situations are not there. They are also of great help where the situations are very complex and do not lend themselves easily to analysis. As we can observe, situations of strategic choice are indeed highly uncertain, have less precedents, and are quite complex. Subjective factors facilitate managers in making a choice though sometimes they may also place limitations on what they can do.

In this section of the chapter, we will learn about the subjective factors in strategic choice. Subjective factors are essentially intuitive and descriptive in nature. Not many ‘cut and dried’ analytical models can be used. But this does not mean that subjective factors are irrational. Rather, they attempt to consider many of the issues that cannot—and probably should not—be dealt with the application of analytical models. Yet, diehard rationalists have used model-building approaches here too.[29]

We identify five subjective factors for strategic choice and discuss these further in this section.

1. Commitment to past strategic actions
2. Strategist’s decision styles and attitude to risk
3. Internal political considerations
4. Considerations for governmental policies
5. Considerations of corporate citizenship obligations

Commitment to Past Strategic Actions

It is rare that an organisation completely breaks away from its past strategies and embarks upon a totally new course of action. Experience shows that they move in an incremental fashion. Called upon to exercise a strategic choice, strategists are more likely to start from where the organisation is, and then work up the way to reach where they want to go. In this way, the strategic choice is more likely to be for those alternatives which arise out of past strategic actions and are an extension to them.

There is another practical reason why past strategic actions affect strategic choice. Strategic actions involve not only the formulation of particular strategies, but also, commitment in terms of resources and personnel. Having made a serious commitment, it is difficult to move to areas where existing resources and personnel become redundant. Therefore, strategists tend to eliminate the strategic alternatives that lead the organisation too far away from their existing positions. Only under pressing circumstances and imminent threat from the environment does an organisation move, or is forced to move, away from its existing position. This gives rise to another subjective factor in strategic choice, i.e. decision styles and attitude to risk.

Strategist's Decision Styles and Attitude to Risk

The decision (or management) style adopted by strategists, particularly the CEO, and their attitude to risk is a determining subjective factor in strategic choice. It is of much interest to note that, given the same set of environmental factors and identical organisational factors, two organisations may follow different strategic paths. One may act in an aggressive manner and adopt a proactive stance with regard to strategy formulation, while the other may act defensively and react to changes. The crucial variable responsible for the difference between the two approaches is the decision style and attitude to risk of the respective strategists.

There are several examples to show how individuals have had a far-reaching impact on strategic choice. Over the years, there have been industrialists like the late Dhirubhai Ambani and his sons of the Reliance Group, Sunil Mittal of the Bharti Group and many others (who may not be in the limelight) who have adopted an aggressive posture and formulated expansion strategies. There are others who have acted conservatively and have not done well. A typical example of such a case is of the erstwhile successful, but now a stagnant, business group of the Sarabhais. But risk aversion may not necessarily be detrimental to strategic interests. The Bajaj group is generally considered to be a cautious and conservative business group. Rahul Bajaj had consistently followed a stability strategy and tried to expand within the existing business of two-wheelers. There are several strategic alternatives that the company could have considered but has chosen to 'stick-to-the-knitting'. It is only in the late-1990s that the Bajaj group awakened to the competition and attempted to formulate corporate and business strategies to deal with it. It could be concluded that the decision style and attitude to risk are contingent upon the requirements of a particular business and the environment in which it operates. In this way, they act as significant subjective factors in strategic choice.

Internal Political Considerations

By 'internal political considerations' is meant the strategists interrelationship, and power structure and balance. When strategy formulation is viewed as a political process, strategists are viewed as a coalition of interests. A dominant CEO is able to affect strategic choice decisively. Where the CEO is perceived as weak, or invites participation, interest groups or cliques emerge which affect the strategic choice process and try to make the process work in their favour. It should be noted, however, that politics and the use of power are not necessarily bad. 'Political behaviour in organization is perfectly natural and legitimate ... Politics and power are neither good nor bad. They are neutral.'[30] The main issue for the CEO is to see that they do not adversely affect the process of negotiations and support conditions that are necessary for the coalition of interests to work. Internal political considerations are crucial for strategic choice as such a choice determines where the resources of organisations will be allocated.

It is difficult to illustrate how internal political considerations play a role in strategic choice as power struggles are rarely publicised. But instances of a dominant strategists guiding strategic choice or of tussles within a family group affecting strategies are available. Prominent former CEOs like Ashok Ganguly of HUL, C.H. Choksey of Asian Paints, V. Krishnamurthy of Bharat Heavy Electricals Ltd. (BHEL) and several others played a decisive role in exercising strategic choice in their respective organisations. The differences among members of family groups such as the Ambanis, Birlas, Modis, Shriram, etc. (apart from those relating to company and asset-sharing) have arisen because of conflicting personalities and power play. Ratan Tata had to grapple with the complexities of internal political considerations for several years before he could institute a system of control over the Tata group of companies managed by powerful managers handpicked by J.R.D. Tata. Only then was he in a position to exercise strategic choice for the Tata companies. Another point to note is that, in the context of the public sector, politicians and bureaucrats in the administrative ministries also play a political role in strategy formulation. Likewise, in multi-national subsidiaries, the parent company may exercise a political influence on strategic choice keeping in view its own objectives and strategies.

All in all, internal political considerations are an important subjective factor in strategic choice. We will again refer to corporate politics, and in greater detail, in the context of strategy implementation in a later chapter.

Considerations for Governmental Policies

A significant feature of the Indian economy is thatdespite a series of liberalisation measures initiated since 1991 it still remains centrally planned and regulated. State intervention in business is very evident. Strategists within organisations are aware of the crucial role that the government plays in setting down policies and priorities. In fact, in several cases, government policies are the deciding factor: a shift in policies can have a significant impact on the future prospects of companies. This is especially true in the case of industries such as airlines, banking, defence pharmaceuticals, power, railways, or telecommunications that depend heavily on government regulations. Strategic alternatives considered by companies have to be seen in the context of governmental policies. Expansion, retrenchment, or liquidation types of corporate strategies can only be feasible if the governmental policies act as a major subjective factor in screening alternatives. We consider government policies as a subjective factor since the perception that strategists have about them is more important from the long-term viewpoint.

Multinational companies in India such as HUL and Indian Tobacco Company (ITC) acknowledge that the strategic choice made by them have been dictated by ‘national industrial and economic policies formulated by the government’.[31] Change in the government, either at the central or state levels, is of much significance to industrialists as they are concerned about the shift in policies and priorities, and the likely impact they would have on business. Annual reports by chairmen of companies invariably devote a lot of attention to the government’s policies and their impact on different industries and businesses. In fact, the current phase of rapid economic and industrial development in India is a direct result of the liberalisation policies of the government. In this manner, it is seen that considerations to governmental policies and priorities is one of the most important subjective factors that strategists take into account while exercising a strategic choice.

Considerations for Corporate Citizenship Obligations

Corporate citizenship obligations are internal and external corporate activities that contribute to the well-being of society. It includes several concepts that we have learned such as sustainability, corporate social responsibility and stakeholders’ management as well as internal activities such as corporate governance and business ethics.

There are a range of obligations that organisations have regarding the different activities of corporate citizenship. Such obligations can affect organisations in two ways depending on the perspective that an organisation adopts. Often, they may be perceived as limitations on strategic choice. But they may also be opportunities when an organisation proactively looks for innovative alternatives. For example, corporate citizenship obligations in sustainability could be viewed as limitation when an organisation perceives it as a constraint on its expansion strategies into polluting industries. But when viewed as an opportunity it can also provide the innovative alternative of making sustainability the basis of its strategy such as going for green products and services. Similarly, corporate social responsibility could be viewed as constraining to an organisation that views it as an additional cost while it may be an opportunity to another organisation that views it positively as a chance to serve society and gain reputation that can add to its credibility as a responsible business.

The subjective and objective factors, described in the previous section, have a collective impact on strategic choice. How a strategist goes about assimilating information from a subjective and objective analysis is a matter of personal choice. The main thrust of strategic choice is to evolve a suitable mechanism for screening all possible strategic alternatives, narrowing the choice down to a few feasible alternatives, and then to choose an optimal strategy. But still an optimal strategy might not be the best. Changing circumstances may render the strategic choice partly irrelevant. It is necessary, therefore, to formulate contingency strategies. These are discussed in the brief section that follows.

9.4 CONTINGENCY STRATEGIES

LO 4

Strategic choice is made on the basis of certain conditions, assumptions, and premises. When there is a change of conditions, shift in assumptions, and premises do not turn out to be wholly valid, then the strategy chosen becomes partly irrelevant. The strategies would need to be modified. If such changes are drastic, the chosen strategies may have to be shelved. Often, the shift in assumptions is sudden, leaving very little time for the strategists to reorient strategies. Contingency strategies are formulated in advance to deal with uncertainties that are a natural part of any business.

Most changes occur in the company's environment. Certain components of the environment, such as the social environment, alter gradually and such changes can be anticipated well in advance. Then there are other types of environment, for instance, the market, regulatory or the international environment, where changes could be sudden and leave little time for the strategists to readjust to the situation.

The environment differs for different types of industries. Certain industries face a turbulent environment while others face a relatively placid environment. Businesses that exist in industries which face a turbulent environment feel a greater need for contingency strategies than those which exist in a relatively tranquil environment.

Apart from environmental changes, organisations face the prospects of emergencies or disasters some of which may result in more harm than can be dealt with operational contingency measures. These may occur due to unfortunate circumstances often beyond the control of organisations. Factory fires, natural catastrophe like hurricanes, wars and civil disturbances, epidemics and crashing of IT systems are examples of such unexpected developments. Under these circumstances, contingency strategies could play a proactive role in dealing with emergencies and disasters. Business continuity management can help minimise or avoid problems before they occur. Crisis management and recovery strategies need to be put in place once an unforeseen event happens as these work as reactive systems to mitigate the after-effects. Risk management and insurance backup too help to deal with disasters. All of these techniques could be a part of the contingency strategies of organisations.

It is not the case that only unfortunate circumstances can create the need for contingency strategies. Sometimes, even unforeseen but fortuitous circumstances that prove to be lucky for organisations can call for contingency strategies. The phenomenon of serendipity—stumbling across good things unexpectedly—sometimes plays a beneficial role in moving an organisation towards new and profitable directions.[32]

Examples of these may be an unexpected opportunity opening up for foreign collaboration, a sudden shift in government policy favouring the industry that company operates in or a technological breakthrough having positive benefits for the company.

There are many industries in India at present which operate in an environment characterised by fast-moving developments. The FMCG, power, telecommunications, IT, and insurance sectors are illustrations of industries that have faced a high level of turbulence. Consequently firms in these industries have had to formulate contingency strategies to respond to the environmental situations as they occurred. Indian companies which follow a formal, structured approach to corporate planning take care to formulate contingency strategies in order to cope with environmental changes and the uncertainties associated with environmental forecasting.

The idea of contingencies is well accepted in accounting. Companies routinely keep aside contingency reserve funds for unforeseen expenses. Scenario planning too relies on developing alternative scenarios based on pessimistic, most likely, and optimistic assumptions. The pessimistic and optimistic assumptions are, in fact, contingencies that might occur in the future. Industries that are open to vagaries of nature such as oil and gas often make contingency strategies. Industries exposed to higher risk such as air transportation and insurance too need contingency strategies. Government and bureaucracy make contingency strategies specially related to defence and management of law and order to avert crises and manage it if it occurs.

There are a few approaches to help companies develop and implement contingency strategies. One such approach is based on a model of contingency planning process.[33] The model consists of three steps: identifying the contingent events; establishing the trigger points; and developing strategies and tactics. Essentially, the requirements of the model are to list events that may occur in future that are critical to a company's strategy formulation process. Trigger points in the form of indicators are established that signal the impending occurrence of these events after which strategies or tactics are employed to deal with the changed situation. This matter of reorienting the current strategies in the light of emerging environmental situations would be an issue to be discussed in the last phase of strategic management when we discuss the topic of strategic evaluation and control. Contingency strategies have received a fair amount of attention from policy researchers as they are of immense value to strategists who have to deal with a transient phenomenon like the business environment.[34]

The final step, before a strategy is implemented, is the formulation of a strategic plan.

9.5 STRATEGIC PLAN LO 5

Having traversed the different elements of strategy formulation, it is time now to pause and look back before we proceed to the next phase of strategic management, i.e. strategy implementation.

A strategic plan (also called corporate, group, or perspective plan) is a document which provides information regarding the critical elements of strategic management and the manner in which an organisation and its strategists propose to put the strategies into action. It also sets down the benchmarks and metrics to be used for evaluating progress in achieving organisational goals.

Contents of Strategic Plan

Based on the structure of this book, certain components of the strategic plan could be suggested. A comprehensive strategic plan document could contain the following information:

1. A clear statement of strategic intent covering the vision, mission, business definition, goals, and objectives.
2. Sustainability goals and policies; means for integrating sustainability into company's strategies; and sustainability metrics and reporting

3. Results of environmental appraisal, major opportunities and threats, and critical success factors.
4. Results of organisational appraisal, major strengths and weaknesses, and core competencies.
5. Strategies chosen and the assumptions under which those strategies would be relevant.
6. Contingent strategies to be used under different conditions.
7. Strategic budget for the purpose of resource allocation for implementing strategies and the schedule for implementation.
8. Proposed organisational structure and the major organisational systems for strategy implementation including the top functionaries and their role and responsibility.
9. Functional strategies and the mode of their implementation.
10. Measures to be used to evaluate performance and assess the success of strategy implementation.

Typically, a strategic plan document could run into several pages and be treated as a formal report. Another possibility is that a brief document of 3 to 5 pages could briefly cover the points mentioned above. Much would depend on the nature and size of the company and the management policies regarding the preparation of the strategic plan document. It must be remembered, however, that when approved and accepted, a strategic plan document has to be communicated down the line to middle-level managers who will be responsible for its implementation.

Strategic Plans in Indian Organisations

Strategic plan formulation has become a necessary part of the Government in India at the central and state levels. Ministries, departments of ministries, and autonomous agencies under the ministries formulate their strategic plans and make them public.[35] Most large-sized companies both in the public and private sectors in India formulate strategic plans. Strategic plans have always been popular with the multinational company (MNC) subsidiaries in India. Medium-sized and small-scale companies may perform the exercise though not necessarily in a formal and structured mannerthough the practice seems to be becoming more prevalent of having formal strategic plans. Non-governmental organizations (NGOs) too are active in creating strategic plans.

A special feature of strategic plans is that many Indian companies formulate their plans keeping in view the timeframe adopted for national-level planning. Thus, companies normally have a 5-year planning period which is synchronised with that of the National Five Year Plans. In fact, core public enterprises have to link their corporate plans with National Five Year Plans. Many public sector enterprises such as BHEL, National Thermal Power Corporation (NTPC Ltd.), Steel Authority of India Ltd. (SAIL) and others have formulated corporate plans of varying duration covering one or more plan periods. The Steel Authority of India Ltd. has an ambitious 'Vision 2025' strategic plan.[36] Planning at BHEL took shape in the form of the first corporate plan which started in 1974 and it has regularly made strategic plan the current being a 20-year plan covering the national 12th and 13th five-year planning period till 2022.[37] TheNational Thermal Power Corporation formulated a long-term corporate plan for the period till 2032.[38] Exhibit 9.13 presents some of the salient features of NTPC Limited's corporate plan.

Exhibit 9.13 NTPC Limited's Growth Perspectives

The National Thermal Power Corporation Ltd is the largest thermal power generating, public sector company of India incorporated in 1975 to accelerate power development in the country. Its vision is to be: 'To be the world's largest and best power producer, powering India's growth'. Its mission is stated as: 'Develop and provide reliable power, related products and services at competitive prices, integrating multiple energy sources with innovative and eco-friendly technologies and contribute to society'.

The National Thermal Power Corporation Ltd. aims at ensuring its presence in the entire value chain of the power generation business including consultancy, power trading, ash utilisation, and coal mining. Its total installed capacity of 43,128 MW resides in17 coal-based and 7 gas-based power generating stations, 7 renewable energy projects, and 7 joint ventures that are coal-based.

The National Thermal Power Corporation Ltd.prepares its corporate plans which are co-terminus with the national 5 year plans. It adopted a 15-year corporate plan 2002–17 as a mid-course correction of its earlier plan of 1997–2012. Its present Corporate Plan 2010–32 aims at diversified growth through a fuel mix of coal, gas, nuclear energy, renewable energy and hydropower. By 2032 it plans to generate 28 per cent of power from carbon-free fuel sources.

The National Thermal Power Corporation Ltd. made changes in its strategy and adopted the path of diversified growth businesses along the energy value chain into coal mining, power trading and manufacturing. The methods adopted for pursuing strategies are several including strategic alliances, joint ventures, acquisitions, and through Greenfield and Brownfield projects. Its strategic alliances and joint ventures are with national as well as international companies.

Corporate citizenship activities of NTPC include rehabilitation and resettlement of displaced persons due to its projects and planned and funded corporate social responsibility mainly in education and community development around its project sites. For achieving sustainable development, NTPC has adopted measures for improvements in the areas of environment management in its various business units.

An interim view of the success of the corporate plan of NTPC shows that it has had mixed success. Its plans to increase generation capacity in thermal power and setting up renewable energy generation plants have been successful but its move into non-core areas such as nuclear power and coal mining have not been realised. Its efforts at strategic alliances and joint ventures also has had mixed success.

Source: NTPC Ltd. website at *http://www.ntpc.co.in/index.php?option=com_content&view=frontpage&Itemid=1&lang=en*; S.P. Singh, 'NTPC's Non-Core Plans Flounder,' *Business Standard*(23 May, 2013) available at *http://www.business-standard.com/article/companies/ntpc-s-non-core-plans-flounder-113052301178_1.html*. Both websites retrieved 19 October, 2014.

Like public sector enterprise, private sector companies also formulate strategic plans. Multinational company subsidiaries often have to prepare the plan documents to be submitted to their parent companies for approval. Often, the MNC subsidiaries draw their strategic plans on the basis of guidelines provided by their parent institutions. Pfizer, for instance, had a Strategic Planning and Development Division to prepare a rolling 5-year strategic plan for the Indian subsidiary Pfizer India. Professional private sector companies may have executive committees consisting of senior level managers who formulate strategic plans. Larsen & Toubro (L&T) Ltd. has a 5-year strategic plan called *Lakshya* (aim) that aims to achieve global competitiveness. Family groups often draft group strategic plans to provide strategic directions to the different companies in the group. Aditya Birla group, for example, has a Corporate Strategy and Business Development division to deal with business portfolio management for the Group focusing on long-term sustainability, profitability and value creation for the Group's businesses. R.P. Goenka (RPG) group's the Zensar Technologies has vision communities—groups of employees who provide ideas and inputs for strategic planning.The non-corporate organisations such as the NGOs, too have strategic plans, by whatever name they may be called, to communicate their long-term vision and plans to their donors and beneficiaries. Sir Dorabji Tata Trust has 5-year strategic plans detailing its activity areas and grant making priorities. Participatory Research in Asia, an NGO working for promotion of citizen participation and democratic governance, formulates 5-year strategic plans that include strategies, roles, key focus areas, ways of working, operational steps, and resourcing.

Exhibit 9.14 presents an interesting account of the preparation of the strategic plan at Infosys Ltd.

Exhibit 9.14 Strategic Plan Preparation at Infosys Limited

The Infosys Limited (earlier Infosys Technologies) had a three-tiered strategic planning process based on time horizons of 1 year, 3 years, and for a period of 5 to 8 years. Every year in July, the department initiated the process of strategic planning by environmental scanning, competition analysis, and model building. A presentation was made to the board of directors followed by another to the company's top managers.

The 5 to 8 years strategic planning had the following components:

- Annual strategic planning to identify themes relevant to the company
- Strategy implementation done through Infyplus—a change management programme
- *Competitive analysis* based on a 5-year model of competition that takes into account the competition likely to be faced from local and international companies
- *Scenario planning* that adopts a what-if style to look at areas such as currency rates movements or technologies

The 3-year business planning had the following components:

- *Business planning* for creating a specific plan for each business unit
- *Goal alignment* mechanism to ensure that all business units are moving in the direction of predetermined goals
- *Portfolio management* to analyse business units for the purpose of investments
- *5-year modelling* to analyse the impact of business decisions on company profitability

The annual planning process called the operations assurance process had the following elements:

- *Resource planning* to assess the space and infrastructure requirements
- *Budgeting process* for quarterly realignment for the following four quarters
- *Risk management* model to deal with strategic, operational, reporting and compliance risks at business, division, functional, and subsidiary levels
- *Operational review*

Source: R. Sukumar, 'Fast Company,' *Business Today* (29 August, 2004).

Communicating the Strategic Plan

The formulation of a strategic plan document provides a means not only to formalise the effort that goes in strategic planning but also for communicating to insiders and outsiders what the company stands for, and what it plans to do in a given future time period. A strategic plan is not always publicised. Rather, lots of companies prefer to treat is as confidential, primarily for protecting their competitive interests. But the main features of the plan are often spelt out for communication to outsiders and for public relations (PR) purposes.

Organisations may or may not reveal their strategic plan but it is essential for employees who will be involved in implementing the strategies to know what they need to do. For this purpose, communicating effectively the strategic plan within the organisation becomes essential. We can consider the points below while communicating the strategic plan:

- Organisations can summarise and share the salient features of the strategic plan with the employees.
- It is better not only to share what the organisation intends to do but also why is it necessary to do it and how it is to be done.
- The top executive team, including the chief executive, should be involved in communicating strategy so that the employees consider it important.
- Repetition of the message of strategic plan is necessary to keep reminding employees and keep it at the top of their mind.
- At the level of organisational units such as divisions and departments, the senior executives can explain to the employees the role of their department and their individual role in strategy implementation.
- Communicating strategy should lead to excitement among employees so that they are motivated to take part in the strategy implementation process.

Communicating strategy is a critical part of making strategic management a part of the employees' thought process and an important priority for senior managers of the organisation.

With this discussion of the strategic plan, we come to the end of this chapter and complete the discussion of the second phase of strategic management, i.e. strategy formulation. Now we move on to the next phase of strategy implementation. The next four chapters deal with the process of strategy implementation.

Summary by Learning Objectives

The basic theme of this chapter is strategic analysis and choice. Strategists set objectives for their firms. These objectives can be achieved through different means, which are alternative strategies. The challenge before strategists is to choose from among these alternatives those that will be the best for achieving their objectives.

The main points covered in this chapter are as follows:

LO 1 *Describe the process of strategic choice*

- The strategic choice process is based on strategic decision-making which is a highly complex activity. The process of strategic choice is divided into four steps of focussing on alternatives, considering the selection factors, evaluation of strategic alternatives, and making the strategic choice.
- Focussing on alternatives involves considering the business definition and analysis of the gap between desired and present performance. The selection factors are divided into parts, the objective and subjective factors. The evaluation of strategic alternatives involves bringing together the analysis done on the basis of these two factors. Finally, the step of making the strategic choice requires choosing the best possible strategic alternative.
- Objective factors, which are based on facts and figures, could be dealt with by the help of analytical models. Subjective factors involve the application of managerial intuition and judgement.

LO 2 *Apply the tools and techniques for strategic analysis*

- Corporate portfolio analysis is a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and strategic planning in multi-product and multi-business firms. We described the GE's Nine-cell matrix as an illustration.
- Corporate parenting analysis focuses on the role of the corporate headquarters in managing a set of businesses in a portfolio.
- SWOT analysis is done to understand their internal and external environments. Through such an analysis, the strength and weaknesses existing within an organisation are matched with the opportunities and threats operating in the environment so that an effective strategy can be formulated.
- Experience and learning curve analysis is used to explain the phenomenon of how certain types of business strategies could benefit from its applications mainly in the area of cost reduction.
- Life cycle analysis is meant to consider the businesses at the various stages of growth and tailor strategies accordingly. Life cycle is a conceptual model that suggests that products, markets, businesses, and industries evolve through sequential stages of introduction, growth, maturity, and decline. The main advantage of life cycle concept is that it can be used to diagnose a portfolio of products (or markets, businesses, or industries) in order to establish the stage at which each of them exists. The life cycle concept provides a useful framework for analysis for the formulation of business-level strategies.
- Industry analysis is based on the Porter's five forces model consisting of five competitive forces—threat of new entrants, rivalry among competitors, bargaining power of suppliers, bargaining power of buyers, and threat of substitute products—that determine the intensity of industry competition and profitability.
- Strategic groups are clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. Strategic group analysis serves the purpose of identifying the strategic groups and then analysing the industry from the viewpoint of the differences in the business strategies employed. This facilitates a direct comparison among the group of firms that compete directly with each other.
- Competitor analysis deals with the actions and reactions of individual firms within an industry

or strategic group. The four components of competitor analysis are: future goals of competitor, its current strategy, and the key assumptions that the competitor makes about itself and about the industry, and its capabilities in terms of strengths and weaknesses. It is important because competitive forces shape the strategies adopted by rivals and because these strategies of rival firms, in turn, shape the competitive forces.

LO 3 *Examine the subjective factors in strategic choice*

- The subjective factors in strategic choice are five: commitment to past strategic actions; strategist's decision styles and attitude to risk; internal political considerations; considerations for governmental policies; and considerations of corporate citizenship obligations.
- Commitment to past strategic actions causes organisations to take incremental steps to move forward. They are also bound by commitments made in the past especially investments in fixed assets.
- Strategists' decision styles and attitude to risk differ considerably among organisations and their managers affecting their strategic choice.
- Internal political considerations deal with interrelationships, power structure, and balance of power among significant individuals in organisations. All of these impact strategic choice.
- Considerations for governmental policies in India have a significant impact of strategy choice.
- Considerations for corporate citizenship requirements include concerns about corporate governance and business ethics within organisations and sustainability, corporate social responsibility, and stakeholders' management outside it. All of these have a bearing on what strategic choices are made.

LO 4 *Discuss the manner in which organisations handle unforeseen environmental events through formulation of contingency strategies*

- Contingency strategies are formulated in advance to deal with uncertainties that are a natural part of any business. Often, organisations need to make mid-course corrections in the light of emerging circumstances not foreseen during the strategy formulation phase of strategic management.
- Many a times, changes take place in the internal and external environment such as disasters, crises, and unforeseen events that make the assumptions made during strategy formulation partly or wholly redundant. Contingency strategies take care of these unforeseen events providing a plan of action whenever needed.

LO 5 *Devise the contents of a typical strategic plan for an organisation*

- Strategic plan is a document which provides information regarding the different elements of strategic management and the manner in which an organisation and its strategists propose to put the strategies into action.
- Many organisations in India including the public and private sector organisation create a strategic plan to guide strategy implementation.
- Communicating the strategic plan to stakeholders is a major responsibility of the top management of any organisation.

With this chapter we complete the discussion on the second phase of strategic management and now move to the next phase of strategy implementation.

EXERCISE

Short-answer Questions

1. What does the process of strategic choice essentially dealwith? **(LO 1)**
2. How can a clear business definition help a strategist in focussing on strategic alternatives? **(LO 1)**
3. Differentiate between the objective and subjective strategy selection factors. **(LO 1)**
4. Explain the two dimensions used to build a GE Nine-cell matrix. **(LO 2)**
5. In general, regarding portfolio analysis, what are: its advantages? Its drawbacks? **(LO 2)**
6. What is meant by corporate parenting? **(LO 2)**
7. How can a SWOT analysis help in shortlisting strategic alternatives at the corporate-level? **(LO 2)**
8. How can the concept of experience curve help in exercising strategic choice at the business-level? **(LO 2)**
9. In what way is the concept of life cycle helpful in making strategic choice at the business-level? **(LO 2)**
10. What are the five forces that affect the industry structure? **(LO 2)**
11. What is meant by the term 'strategic groups'? **(LO 2)**

12. What is the purpose of doing a competitor analysis? **(LO 2)**
13. Exemplify how commitment to past strategic actions may restrict the strategic choice for a firm? **(LO 3)**
14. What strategies are more likely to be chosen if strategists adopt: an aggressive decision style? A defensive decision style? Why? **(LO 3)**
15. 'Politics- and power-play within organisations may help strategic choice'. Do you agree with this statement? Why? **(LO 3)**
16. Give two illustrations to show how government priorities can significantly affect the strategic choice made by an Indian company. **(LO 3)**
17. How can considerations for sustainability affect the strategy choice at an organisation? **(LO 3)**
18. Why does the need for developing contingency strategies arise? **(LO 4)**
19. Propose the outlines of a strategic plan for a medium-sized company? **(LO 5)**

Assurance of Learning Exercises

1. Describe the manner in which the process of strategic choice works. **(LO 1)**
2. A large business group wishes to identify strategies for the various businesses in its portfolio. How can it go about doing this? **(LO 2)**
3. Describe the GE Nine-cell matrix technique used for analysing corporate portfolio. **(LO 2)**
4. Critically comment on the use of corporate portfolio analysis for examining the objective factors involved in exercising a strategic choice. **(LO 2)**
5. Pick up a business magazine and identify a corporate report in which the SWOT factors of a company are mentioned. On the basis of these factors suggest the strategic alternatives before the company by constructing a TOWS matrix. How should the company make a choice from among the alternatives that you have identified? **(LO 2)**
6. Consider any real or hypothetical firm in an industry of your choice. Assume a realistic set of ETOP and SAP, and assimilate the information contained in these profiles to suggest a set of feasible strategic alternatives for your chosen firm. **(LO 2)**
7. Discuss the relevance of industry, strategic groups, and competitor analyses to the strategic choice process. **(LO 2)**
8. Choose an industry of your choice in India. Collect information from print and on-line sources to prepare a corporate profile describing the five forces of competition in that industry. **(LO 2)**
9. Select an industry of your choice. Identify Porter's fiveforces of competition in that industry. Perform a competitor analysis from the point of view of the market leader in that industry. Identify the possible strategic groups in that industry and judge the implications of such groups on the strategies of the market leader. **(LO 2)**
10. Discuss the different types of subjective factors that affect strategic choice. **(LO 3)**
11. Given the fact that some industries face a high level of environmental uncertainty, discuss the manner in which organisations in such an industry can formulate contingencies strategies. **(LO 4)**
12. Describe the contents of a good and workable strategic plan for a large business group or a public sector enterprise in India. **(LO 5)**

Review Case

STRATEGIC CHOICE FOR DIGITAL ENTERTAINERS: THE CASE OF E-CITY*

Leisure and entertainment usually gain prominence in an economy that is growing fast and provides leeway to consumers to spend on things other than necessities. India's media and entertainment industry is one of the sunrise industries. In 2013, the industry grew at 11.8 per cent over 2012 touching Rs. 918 billion. It is expected to grow at around 14 per cent annually to reach Rs. 1,786 billion by 2018. As per a FICCI–KPMG report, the industry reaches 161 million television households; 94,067 newspapers; about 2,000 multiplexes; and 214 million internet users, of which 130 million access the Internet on their mobile phones. Positive measures taken by the government, technological advancement, and entry of large corporate houses in all the segments of the industry are fuelling the impressive growth. Among the various segments of the industry there are television, print, films, radio, music, and new media including animation and visual effects (VFX), gaming, and digital advertising. New media and regional media are high growth segments while the other segments are expected to grow between 9 per cent and 18 per cent. Regional film industries such as South Indian languages, Marathi, Punjabi, Bengali, and Gujarati have also seen good growth driven by better cultural fit for regional content; focus on socio-political issues related to particular regions and stronger engagement with viewers in contrast to national Hindi programming. Overall, films segment is expected to grow at around 12 per cent till 2018.

Film making and distribution in India has been traditionally an unorganised and fragmented industry managed through experience rather than systems. In recent years, one trend in the film industry is corporatisation. Under corporatisation, the traditional organisations dealing with the various aspects of film making and distribution become formal organisations registered under the legal process such as the Companies Act, 1956. Along with corporatisation comes increasing professionalisation in management of organisations. Technology, especially information and communication technology, has played its part in heightening the chances of making corporatisation and professionalisation successful. A new breed of organisations has emerged on the horizon that deals with the various activities in an organised and systematic manner.

The film industry has been recording impressive growth with multiple movies scoring big on box office collections in recent years. Approximately 90 per cent to 95 per cent movie screens are now digitised in the country, with a shift in focus to tier II and III cities. There are over 10,000-odd screens in the country and 2,000-odd touring theatres. Of these, 80 per cent to 85 per cent is in non-metros. Half of these screens are in towns that do not even have municipalities. Major investments in the media and entertainment industry in recent years have been ploughed into infrastructure, largely into multiplex chains and digital theatre chains. These investments are made by companies that are pure retail and distribution companies. Multiplex growth is expected to slow down, in line with the overall delays and future expectations for retail sector and commercial real estate development, impacting box office growth in the short-term.

The digital theatre is a compact model having various elements such as digital projectors, servers, connectivity equipment, high-definition recorders and telecine, system integration, and software solution providers. Creating a franchise system for long-term lease enables sharing of the initial high costs of realty by engaging partners who own the theatre space. There are additional possibilities of creating content library of films, extending networks abroad, and building integrated family entertainment centres.

The basic idea is to have a chain of theatres for exhibition of films that have been encrypted in the digital medium. The theatres are linked through satellite-based communication network. The films are released in the digital format and simultaneously exhibited in the digitally-enabled theatres through the satellite network. An illustration of the huge advantage of the digital format can be seen in the fact that Shah Rukh Khan's film 'Om Shanti Om' released in 2007 with 1,400 mostly analogue prints had an estimated net box office collection in 2007 of around Rs 79 crore. In 2013, Dhoom 3 earned around Rs 280 crore and was released with 4,500 prints with almost 100 per cent digital prints.

The one-stroke release and exhibition of films is claimed to reduce the chances of films being pirated that is the Achilles' heel of the film industry in the world. It also avoids the use of costly film rolls and reels now used to photograph and distribute films. The digitised theatres also offer the potential of developing them as value-added service providers enlarging their role from that of entertainment providers to commercial infrastructure providers such as shopping malls, exhibition spaces, and education and training venues.

The business model of the digital theatre concept is based on vertically-integrated theatre chain on long-term lease where the revenue streams emanate mainly from the ticket sales at the individual theatres at the demand end much like it does now. The critical difference is on the supply side where the distribution, retailing, and exhibition of films are done in an integrated manner through digital means connected through a communication network. This effectively eliminates the film distributor and tries to achieve economies of scale through volume sales. The centralised network operating centre is the nodal supply point. A standardised delivery process makes the process operationally low-cost albeit at a high initial investment. Additional revenue streams, generated through exploitation of the theatre infrastructure to provide other services than entertainment, help to recoup the high initial investment. Future potential lies in a seamless digital chain where most films are shot on digital format; distributed in digital format; marketed through various social media platforms; and film tickets are sold through online booking platforms and also made available on websites providing video-on-demand services.

Film entertainment segment of the entertainment and media industry has several strategic groups that could be roughly categorised along the value chain of film making and distribution. These strategic groups could be: production, distribution, retail, music, and home video. While many of the companies operate in more than one activity area on the value chain such as Yash Raj Films operating in all activity areas except retail there are a few that concentrate on just one or two activity areas such as the Ram Gopal Verma (RGV) Film Factory that is just there in production of films. Size based on revenue could be another basis for categorisation of the film entertainment companies in India. Among the large size companies are Adlabs, Shringar, Percept, the Yash Raj Films and the United Television (UTV) The middle-rung is of companies such as pure retail and distribution companies Inox Leisure, Priya Village Roadshow (PVR) Cinemas, Fun Multiplex and Valuable Group or pure content companies such as the PritishNandy Communications, Vishesh Films or RGV Film Factory. The third category is of niche companies such as the Real Image, Red Ice, and Seven Entertainment.Between themselves, UFO Moviez and Real Image currently manage almost 8,000 digital screens.

The E-City Digital Cinemas Private Limited (E-City), currently a 100per cent subsidiary of the Fun Multiplex Private Limited, is a system integrator supplying digital projection systems to theatres across India. The company was established in April, 2004, and aims to implement digital technology at the various independent cinema houses in this fragmented industry. The company has offices in Mumbai, Saurashtra, Delhi, Nizam, Central Provinces/Central India/Rajasthan and operates over 300 screens. The mission of the company is to consolidate E-City's digital position as a total solutions provider in the digital-enabled cinema exhibition space and to create incremental box office revenue for the industry through leveraging technology to increase the productivity of a film by growth in number of day and date release centres.

E-City follows both the 'E-Cinema model', wherein it provides projectors with 1.3k resolution, and uses Moving Picture Experts Goup (MPEG) 2 technology for compression; as well as the 'D-Cinema model', wherein it supplies projectors with 2k resolution, and uses Joint Photographic Experts Group (JPEG) 2000 technology for compression. E-City buys digital projectors from the open market from Panasonic for E-Cinema and Barco for D-Cinema and rents servers from Real Image. It leases out the digital projection system to the exhibitors charging monthly rentals. In addition, E-City charges a virtual print fee from the distributors. It also does programming for the exhibitors, and instead of charging monthly rentals from the exhibitors, it enters into revenue sharing agreements with the exhibitor. By 2012, E-City had digitised 328 theatres having net profit of Rs. 3.5 crore on an operating income of Rs. 33.8 crore for the 12 months ended 31 March, 2012.

E-City's major SWOT factors could be enumerated as follows:

Strengths: Strong parentage being part of the US 5 billion Essel Group creating potential for synergy; low-cost digitisation solutions offered to theatres; faster acceptance of digital projection systems by theatres; Alliance with Red Image to leverage digitisation technology;

Weaknesses: Relatively smaller size of operations making it a marginal player in industry; high capital intensity of operations;

Opportunities: Favourable demographics; increasing spending on entertainment; potential expatriate demand; availability of technology infrastructure such as broadband and digitised films a regenerative asset that has multiple usage;

Threats: Increasing intensity of competition; imminent entry of new players; vulnerable to rapid changes in technology; unorganised film industry; powerful industry bodies with political lobbying capabilities; high entertainment taxes; piracy; high cost of realty and infrastructure; lack of clarity in governmental policy toward media and entertainment industry.

Screen count and ticket prices are significant key performance indicators in the digital film industry. The ticket collections are driven by increase in screen counts especially beyond major cities in India. While movie studios have benefited from digitisation, continued growth depends on increase in screen count and ticket collections. Major multiplex operators such as PVR and Inox are aggressively looking to expand their screen count. There are concerns about real estate slowdown, high rentals, single screen theatre closures, and comparatively lower spending power in smaller cities. Yet, the large untapped market potential remains challenging.

Digital operators are considering developing technology solutions such as ticketing and monitoring platforms, digital sound solutions, and post production software as potential revenue streams. Both UFO and Real Image are also aggressively looking to roll out 3D cinema screening capabilities within its network given the growing volume of 3D content especially from Hollywood. International markets hold promise with companies such as UFO looking to rapidly expand its 800 screens currently to 2,000 screens by 2015. In-cinema advertising is another potential revenue earner with growing interest among advertisers as it provides a captive audience and the opportunity to reach under-penetrated small towns in India.[39]

Questions

1. Construct a TOWS matrix for E-City based on data provided in the review case. **(LO 2)**
2. Attempt a Porter's five forces analysis for the Indian film industry highlighting factors relevant for E-City's strategic planning. **(LO 2)**
3. Attempt a strategic groups analysis highlighting factors relevant for E-City's strategic planning. **(LO 2)**
4. Identify the subjective factors that may have an impact on the strategic choice made by E-city. **(LO 3)**

Notes and References

1. Website of IRDA at *https://www.irda.gov.in/*; Annual Report, IRDA, 2012–13 at file:///C:/Users/Admin/Downloads/Annualper cent20Reportper cent202012-13_IRDA_English.pdf; Company website at *http://www.bajajallianz.com/*; *KPMG Report on Insurance Industry – Road Ahead, 2013* at https://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/Insurance_industry_Road_ahead_FINAL.pdf; *FICCI report on India General Insurance – Vision 2025* (October, 2013) at *http://www.ficci-insurance.com/knowledge-papers/8.pdf*; S.S. Dagar and E.K. Sharma,'Capital Constraints,'*Business Today*(17 June, 2007): 126; 'Insurance: Indian and Foreign Firms Test Positive for Growth Steroid,' 16 November, 2006 in *Knowledge@Wharton*. All websites retrieved 13 December, 2014.
2. W.F. Glueck and L.R. Jauch, *Business Policy and Strategic Management*, 4th ed. (New York: McGraw-Hill, 1984): p. 270.
3. *Ibid*, p.18, 271.
4. R.P. Rumelt: 'A Note on Strategy Evaluation' available at *http://www.anderson.ucla.edu/faculty/dick.rumelt/Docs/Notes/StratEvaluation1999.pdf*. Retrieved 10 November, 2014.
5. D.A. Aaker, *Strategic Market Management*, 2nd ed. (New York: John Wiley & Sons, 1988): 179.
6. M.G. Allen, 'Diagramming GE's Planning for What's WATT', in *Corporate Planning - Techniques and Applications,* eds. R.J. Allio and M.W. Pennington (New York: AMACOM, 1979).
7. D. Channon, 'Commentary to Strategy Formulation—Analytical and Normative Models,' in D. Schendel and C. Hofer, *Strategic Management*, (Boston: Little Brown, 1979).

8. *Ibid*.
9. P. Haspeslag, 'Portfolio Planning—Uses and Limits', in *Harvard Business Review* (January–February. 1982): 58–73.
10. C.W.L. Hill and G.R. Jones,*Strategic Management Theory* (Princeton, NJ: Houghton Mifflin, 1997): 308–09.
11. See these sources for the level of continuing academic and practical interest in corporate portfolio techniques: M. Nippa, U. Pidun, and H. Rubner, 'Corporate Portfolio Management: Appraising Four Decades of Academic Research,' *Academy Of Management Perspectives,* 25, no. 4 (2011): 50–66; R. Untiedt, M. Nippa and U. Pidun, 'Corporate Portfolio Analysis Tools Revisited: Assessing Causes that May Explain their Scholarly Disdain,' *International Journal of Management Reviews*, 14, no. 3 (2012): 263–79; R. Untiedtand U. Pidun, 'Corporate Portfolio Management Applications: Role of Firm Characteristics and Impact on Corporate Processes,' *International Journal of Applied Management Science,* 5, no. 1 (January 2013): 1–21 and R. Untiedt, M. Nippa, and U. Pidun, 'Application Matters: How Different Corporate Portfolio Management Practices Impact Firm Performance,' *International Journal of Business Performance Management*, 14, no. 2 (January 2013): 197–220.
12. Studies fail to take cognizance of the usefulness of corporate portfolio techniques in Indian context. See, for example, S. Subramaniam, 'Corporate Planning Practices in India,' *Economic and Political Weekly* (27 May, 1989): M87-M91.
13. A. Campbell, M. Goold, and M. Alexander, *Corporate Level Strategy: Creating value in the Multibusiness Company* (New York: John Wiley & Sons, 1994).
14. M. Goold, A. Campbell and M. Alexander, 'Corporate Strategy and Parenting Theory,' *Long Range Planning,* 31, no. 2 (1998): 308–14.
15. D. A. Aaker, *op. cit.*, 162–63.
16. M.E. Porter, *Competitive Strategy - Techniques for Analyzing Industries and Competitors*, (New York: The Free Press, 1980): 6.
17. The Central Statistical Organisation (CSO) in the Ministry of Statistics and Programme Implementation is the nodal authority for bringing out the National Industrial Classification in India. See its website here: *http://www.csoisw.gov.in/CMS/En/1026-national-industrial-activity-classification.aspx*. Retrieved 16 October, 2014.
18. A. Haberberg and A. Rieple, *Strategic Management: Theory and Application*(New York: Oxford University Press, 2008): 132.
19. M.E. Porter, *op.cit.*, 4.
20. A. Miller and G.G. Dess, *Strategic Management*, 2nd ed. (New York: McGraw-Hill, 1996): 71.
21. M.A. Hitt, R. D. Ireland, and R. E. Hoskisson, *Strategic Management: Competitiveness and Globalization,* 3rd ed. (Cincinnati, Ohio: South-Western College Publishing, 1999): 72.
22. H. Thomas and T. Pollock, 'From I–O economics' S–C–P Paradigm through Strategic Groups to Competence-Based Competition: Reflections on the Puzzle of Competitive Strategy,' *British Journal of Management,* 10 (1999): 127–40.
23. R. Chittoor and S. Ray, 'Internationalization Paths of Indian Pharmaceuticals Firms: A Strategic Groups Analysis,' *Journal of International Management,* 13, no. 3 (September 2007): 338–55.
24. R. Rao, 'The Size of a Winner,' *Business India* (7–20 February, 2000): 63.
25. A. Mukherjee, P. Nath, and M. N. Pal, 'Performance Benchmarking and Strategic Homogeneity of Indian Banks,' *International Journal of Bank Marketing,* 20, no. 3 (2002): 122–39.
26. M. E. Porter, *op. cit.*, 47.
27. M. A. Hitt, *et al.*, *op. cit.* 73.
28. J. K. Gupta, 'Paints Industry: Out of the Blues and into Black,' *Financial Express* (18 September, 2005).
29. A.J. Rowe, R.O. Mason, and K. Dickel, *Strategic Management and Business Policy - A Methodological Approach* (Reading, Mass: Addison-Wesley, 1982).
30. R.H. Waterman, Jr., *The Renewal Factor* (New York: Bantom Books 1987): 219–20.
31. S.K. Bhattacharya, *Achieving Managerial Excellence –Insights from Indian Organisations* (New Delhi: Macmillan, 1989): 62–65.
32. C.W.L. Hill and G.R. Jones, *Strategic Management: An Integrated Approach* (Boston, M.A.: Houghton Mifflin 2007): 22.
33. R.O. Connor, *Planning and Certainty - Multiple Scenarios and Contingency Planning*, (New York: Conference Board, 1978): 17.
34. C.W. Hofer, 'Towards a Contingency Theory of Business Strategy,' in *Academy of Management Journal*, 18 (November 1975): 784–810.
35. See, for instance, the strategic plan of the Ministry of Civil Aviation, Government of India here: *http://civilaviation.gov.in/cs/groups/public/documents/newsandupdates/moca_000783.pdf* and the strategic

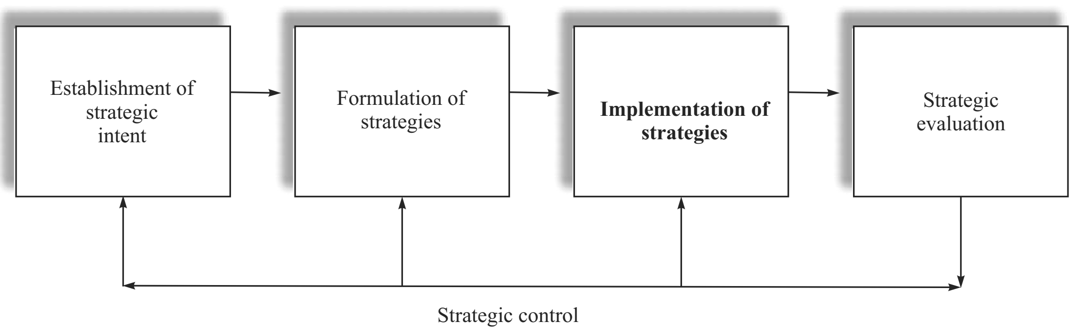
plan of India Post here: *http://www.indiapost.gov.in/pdf/strategic_plan.pdf*. Both websites retrieved 18 October, 2014.

36. R. Mazumdar, 'SAIL Planning to Double Steel-making Capacity to 50 Million Tonne by 2025,' *The Economic Times* (23 September, 2014). Retrieved 18 October, 2014.
37. U. Bhaskar, 'BHEL Prepares Strategic Plan to Take on Competition,' *Livemint* (3 June, 2011). Retrieved 18 October, 2014.
38. See the corporate website of NTPC to read about its diversified growth strategic plan here: *http://www.ntpc.co.in/index.php?option=com_content&view=article&id=69&Itemid=116&lang=en*. Retrieved 18 October, 2014.
39. 'Media and Entertainment Industry' at *http://www.ibef.org/industry/media-entertainment-india.aspx*; *The Stage is Set: FICCI-KPMG Indian Media and Entertainment Industry Report 2014* at *http://www.ficci.com/publication-page.asp?spid=20372*; Essel Group site at *http://www.esselgroup.com/group-profile.html*; E-City Digital site at *http://www.ecitydigital.com/AboutUs.html*; 'Digital Evolution - Meeting Challenges of a New Paradigm' at: *http://www.moneycontrol.com/news/business/digital-evolution-meeting-challengesa-new-paradigm_1070902.html?utm_source=ref_article*; A. Athique and D. Hill, *The Multiplex in India: A Cultural Economy of Urban Leisure* (New York, NY: Routledge, 2010). All websites retrieved 14 December, 2014.

PART

3 Strategy Implementation

In the third part of this book we will learn about the different aspects of strategy implementation. You will need to review some topics you have learnt in other courses in management as you read this part of the book. The concepts, techniques, and methods that you have learnt elsewhere come to the fore here. As we discuss the different aspects of strategy implementation in four chapters our focus will be on how the organisation adapts to the requirements of the strategy that it is implementing. First, we learn about three aspects of implementation that create the foundation for strategy implementation. Organisations in India have to set up projects and manage firms in the context of a statutory procedural framework. Project and procedural implementation are, therefore, an integral part of strategy implementation in India supported by resource allocation. Then we take up four other aspects that form the core of strategy implementation. These are presented in Chapters 11, 12, and 13 wherein structural, behavioural, functional, and operational implementation are dealt with respectively. The creation of structure and the associated systems, managing behaviour, laying down functional policies, and operationalising strategies are the other vital aspects of strategy implementation. In this part, we will get an opportunity to see how the fascinating process of strategy implementation could work.



10

CHAPTER

Activating Strategies

Learning Objectives

After reading this chapter you should be able to:

LO 1 Describe the nature of strategy implementation
LO 2 Identify barriers to strategy implementation
LO 3 Discuss the interrelationship between formulation and implementation of strategies
LO 4 Explain the three themes that constitute model of strategy implementation
LO 5 Review the role of project management in strategy implementation
LO 6 Analyse the role of regulatory mechanisms in India in procedural implementation
LO 7 Recognise the importance of aligning resource allocation to strategy

Chapter Outline

Preview Case

A BETTER LIFE FOR THE RURAL POOR IN BIHAR*

One-third of world's population, earning below the US$ 1.25, live in India. This is more than the number of poor in all of sub-Saharan Africa. Millions of people have no access to clean drinking water, sanitation, and electricity. Yet, progress in poverty reduction is there despite the controversies among economists about how the poverty figures are calculated. Poverty headcount ratio is falling fast. From 45 per cent in 1993–94 it fell to 22 per cent in 2011–12 pulling out 130 million out of the poverty trap. India's estimated 270 million poor are mostly concentrated in the states of Bihar, Jharkhand, Chhatisgarh, Madhya Pradesh, Orissa, Rajasthan, and West Bengal. A major cause of poverty among rural people in India is lack of access for both individuals and communities to productive assets and financial resources.

Among the several organisations working in the government and non-governmental sectors is the Bihar Rural Livelihoods Promotion Society (BRLPS) that works under the brand name of JEEVIKA—an initiative of the Bihar government for poverty alleviation. The BRLPS is an autonomous organisation under the department of rural development. The Indian government's National Rural Livelihoods Mission (NRLM) is implemented through the BRLPS in 38 districts and consists of 534 blocks of Bihar.

The broad objective (or mission) of BRLPS is to enhance social and economic empowerment of the rural poor in Bihar. The strategies adopted to accomplish the objective are:

- Improving rural livelihoods and enhancing social and economic empowerment of the rural poor;
- Developing organisations of the rural poor and producers to enable them to access and better negotiate services, credit, and assets from public and private sector agencies and financial institutions;
- Investing in capacity building of public and private service providers; and
- Playing a catalytic role in promoting development of microfinance and agribusiness sectors.

Keeping in line with its bureaucratic nature, the BRLPS has a four-tiered structure. The top tier is headed by the mission director who is the chief executive officer (CEO). There are two units of the organisation: core thematic and support thematic. The core thematic has nine operational departments dealing with the activities of BRLPS such as health and nutrition, microfinance, and farming. The support thematic has functional departments such as finance, human resource (HR) management, and management information system. The second tier operates at the district level headed by district project manager and supported by managers in operational and functional departments. The third tier is at the block level headed by block project manager and staff looking after coordination, accounts, and livelihood specialists. The fourth tier at the village level has community cadre consisting of a variety of personnel. The BRLPS has made attempts at professionalisation of project management through recruitment of qualified staff. During 2013–14, it recruited nearly 5,000 personnel at the level of officers, managers, and staff nearly doubling its employee strength. Under its recruitment of young professionals (YP) scheme, it recruited graduates from reputed institutions including from Tata Institute of Social Science (TISS) and the IRM.

The implementation of the mission is done through six programmes: social inclusion, financial inclusion, livelihoods promotion, convergence and partnerships, skill and placement, and vulnerability reduction. There are a variety of projects under each of these six programmes. For instance, under social inclusion there are promotion of self-help groups and formation of village organisations. There are policy manuals such as the community operation manual to provide guidelines to the base level personnel in their activities. Social mobilisation is a key tactic used to build up momentum for action at the grassroots level. Community professionals are identified and facilitated to contribute to the project's objectives. Stakeholders such as non-governmental organisations (NGOs) and banks working in the area are co-opted into implementation. Metrics to measure the performance are laid down. For instance, in livelihoods promotion criteria laid down for agricultural intervention is generating Rs. 5,000 per *katthas* measures of land leading to Rs. 50,000 annual income for a rural household. An annual action plan for each of the 38 districts is formulated. There are quarterly progress reports and several assessments carried out including a monthly review report of achievements. The action plans, quarterly progress reports, and monthly reviews are posted on the BRLPS website. Management information systems are considered an important area with continual improvements such as use of decision support system and mobile technology in data collection and dissemination.

The funding for the BRLPS is derived mainly from the World Bank through its specific investment loan instrument approved in 2007 and valid till 2015. Other agencies providing funding are ministries and departments of governments of India and Bihar, the National Bank for Agriculture and Rural Development (NABARD), United Nations International Children's Fund (UNICEF), and Bill and Melinda Gates Foundation depending on the nature of activities undertaken. There is, in general, scepticism in India regarding the impact that government schemes and projects really have and these concerns are not entirely unjustified. There is also apprehension regarding the high level of corruption and lack of transparency in government and bureaucracy. Contrary to popular perception, there apparently seems to a high level of transparency in the BRLPS as its website provides a lot of information and documents pertaining to the various facets of the project. There are other alternative sources on the Internet such as those of the World Bank that corroborate the achievements of the project making it a reliable assessment based on third-party monitoring and evaluation. There could have been problems arising out of the usual inefficiency of state governments in creating the initial administrative structure or concerns about the high administrative costs and delays in sanctions.

The BRLPS is subject to rigorous impact assessment as it is an organisation that has access to funding from national and international agencies. Internally, there are the usual internal audit functions besides certification of accounts statement by a chartered accountant. The agency also appoints external consultants from time to time to help it monitor its activities. External agencies such as the World Bank have their social observatory teams to ensure proper utilisation of funds. As a measure of its success, BRLPS is also designated as the nodal organisation of NRLM in Bihar. It also shares learning with similar organisations in states such as Uttar Pradesh, Jharkhand, and Rajasthan. The World Bank assessed its performance as satisfactory during its latest assessment of May 2014.

Poverty is a scourge to be eliminated for humanity to survive. The United Nation's Millennium Development Goal (MDG) is to halve the poverty by 2015. The effort is on to achieve the goal.

Poverty in Asia is a massive problem. Eradicating extreme poverty and hunger for huge numbers of poor people is crucial to achieving the primary MDG of halving poverty by 2015. More than two-thirds of the world's poor people live in Asia, and nearly half of them are in Southern Asia. As elsewhere, in India poverty is essentially a problem in rural areas of the country. The BRLPS, in its annual report of 2013–14, aims at mobilising 1.5 crore rural poor into 10 lakh self-help groups, pulling 1 crore people out of poverty, providing skills, and placement for 15 lakh rural youth, and facilitating Rs. 1,200 crore credit from financial institutions by 2016–17. These are ambitious goals and BRLPS would have to ensure that is implementation processes work smoothly and efficiently.[1]

With this chapter we move to the next phase of strategic management. Strategy implementation is the 'proof of the pudding is in the eating' phase. All the efforts of strategy formulation bear fruit in this phase. As we observe in the preview case of the BRLPS, there are thorny issues to be dealt with in the course of implementing strategies. The BRLPS has a formidable foe against it: rural poverty unlike companies that have less threatening rivals. The case illustrates how it implements the strategy of attacking the roots of rural poverty and creating sustainable employment and sustenance for the rural poor. This review case also demonstrates the applicability of strategic management concepts to organisations other than companies that we are more familiar with.

For the purpose of strategy implementation, managers rely on a vast reservoir of knowledge of management. You will need to review a lot of matter that you have learned in other courses in your management programme. The concepts, techniques, and methods you learned elsewhere come to the fore in this chapter. As we discuss the different aspects of strategy implementation, our focus will be on how the organisation adapt to the requirements of the strategy it is implementing.

10.1 NATURE OF STRATEGY IMPLEMENTATION LO 1

Strategy implementation is 'a dynamic, iterative and complex process, which comprises a series of decisions and activities by managers and employees—affected by a number of interrelated internal and external factors—to turn strategic plans into reality in order to achieve strategic objectives.[2] It is concerned with the managerial exercise of putting a freshly chosen strategy into place.'[3] Strategies, by themselves, do not lead to action. They are, in a sense, a statement of intent: implementation tasks are meant to realise the intent. Strategies, therefore, have to be activated through implementation.

Exhibit 10.1 Strategy Implementation at Nahar Industrial Enterprise Ltd.

Nahar Industrial Enterprises Ltd.(NIEL) is a vertically-integrated textile manufacturer, covering value chain operations ranging from spinning, weaving and processing to finished readymade garments. Set up in 1983 as a part of the Oswal family group companies, NIEL is based at Ludhiana at Punjab. It consolidated its core business of textiles and divested non-related businesses of steel, oils, and soaps and integrated forward into retailing. All this required embarking on an expansion strategy through integration, added focus on internationalisation and future diversification into the related field of textile e-commerce.

The company has a good track record in the textiles business, Oswal family group's long-standing experience, group synergies in cotton procurement and established market presence. It also benefits from the partially integratednature of operations which mitigates demand risk and its diversified revenue base with focus on the relatively stable domestic market, where it possesses an established distribution network lending stability tovolumes.

For putting its integration strategy into action, NIEL implemented an expansion plan. This plan had various programmes such as augmenting production capacity and expanding exclusive franchise outlets for its Cotton County branded garments. The finance for putting strategies into action was sourced through term loans, foreign currency convertible bonds, and internal accruals.

A part of strategy implementation at NIEL required overhaul of various functional strategies. For instance, the functional strategy of marketing involved geographical expansion into Southern India where the group boosted its presence as well as geographical extension by moving from its mainly small-town presence to bigger cities. Market development involved seeking opportunities in apparels for women and children from its then focus on menswear while product development sought to expand the range from garments to undergarments. Another functional area of information management got a boost with implementation of an enterprise resource planning project.

It's not as if all of NIEL's plans, programmes and projects had gone ahead smoothly. For instance, it had to shelve an expansion project at Raisen, Madhya Pradesh, as it did not get land allotted by the State government.

Sources: 'Nahar Plans Rs. 800 crore Expansion,' *The Financial Express* (20 May, 2006); 'Nahar to Exit Non-Core Business, Focus on Textiles,' *The Economic Times* (8 August, 2006); Nahar Weaves Rs. 814 crore Spread,' *Business Standard* (9 October, 2006); and 'Nahar Retail to Pump in Rs. 430 crore,' *The Economic Times* (13 September, 2007); ICRA Credit Perspective Report at *http://icra.in/Files/Reports/Rationale/NAHAR%20INDUSTRIAL%20ENTERPRISES_cpr_17092014.pdf*; and NIEL's website at *http://www.owmnahar.com/*. Both websites retrieved 19 October, 2014.

The characteristics of strategy implementation described next serve to highlight the essential nature of strategy implementation:

- *Action orientation*: The essential nature of strategy implementation is that it entails action. Strategy implementation involves putting the formulated strategies into action where managers need to apply knowledge and techniques of management processes. These management processes have been extensively researched and written about in management literature. Strategy implementation renders the intellectual content of strategy formulation into the operational process of practice.
- *Comprehensive in scope:* The different aspects involved in strategy implementation cover practically everything that is included in the discipline of management studies. As we will observe in this and the chapters that follow, strategy implementation traverses a wide range of functions and activities. In fact, you can think of anything that involves managerial action and that will be a part of strategy implementation. A marketing manager may develop the marketing budget, allocate sales to sales territories, launch an advertising campaign or initiate a market research project. All these activities are a part of the strategy implementation process. Similarly, various other activities such as establishing cost control procedures, setting operations schedules, designing training programmes, or altering the organisation's information system are all strategy implementation activities.
- *Integrated process:* The various tasks in strategy implementation are not stand-alone activities. They are interrelated and therefore strategy implementation has to act in a holistic manner. Each task or activity performed is related to another creating an interconnected network, the hub of which has to be the strategic plan. The flow of the strategy implementation process is in the forward direction with movement on several fronts simultaneously.
- *Wide-ranging involvement:* As opposed to strategy formulation which is primarily a top management responsibility, strategy implementation necessitates involvement of middle-level managers. This means that the strategic plan has to be properly communicated to and understood by the middle-managers before they can play an effective role in strategy implementation.
- *Demanding varied skills:* Since strategy implementation involves a wide range of activities, a strategist has to bring to his or her task a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities, for instance, to allocate resources, design structures and systems, formulate functional policies, take into account the leadership styles required, and plan for operational effectiveness besides dealing with various other issues.

Have a look at Exhibit 10.1 to learn how an integrated textile mill implements its strategies. Observe how the company illustrated there translates its strategies into action, garners resources, and creates an elaborate network of plans, programmes, and projects to implement strategies. We will shortly return to this network after we refer to the barriers to strategy implementation.

10.2 BARRIERS TO STRATEGY IMPLEMENTATION — LO 2

In strategy literature, we often come across statements like 'it's much more difficult to implement a strategy than to formulate it' or 'a good enough strategy, implemented well is better than an excellent strategy, implemented awfully'. It is indeed true that doing is more difficult than thinking about doing. Strategies often fail not because they were not formulated well but for the reason that they were not implemented effectively.

Research studies report that strategists often find that strategy implementation is much more difficult than strategy formulation.[4] Strategists have developed skills to formulate strategies well but when it comes to implementation there is much left to be desired. For instance, a consulting agency's report concluded that eight out of ten companies failed to deploy their strategies effectively.[5] A study in the Indian context done with 145 managers working in companies in and around Delhi attempted to uncover the reasons why strategy implementation is unsuccessful. The study listed 11 most frequently cited reasons of which the major ones are: inadequate management skills, poor comprehension of roles, inadequate leadership, ill-defined tasks, and lack of employee commitment.[6]

Hrebiniak points some general, overarching issues that impede strategy implementation. Among them is the fact that managers are often trained to plan and not to execute strategies; the top managers are reluctant to soil their hands in the dirty tasks of implementation; formulation and implementation being interdependent yet being done by two different groups of managers; typically implementation taking longer than formulation putting pressure on the managers to show results; and formulation involving many more people within an organization than does formulation. Hrebiniak's own empirical findings listed the following major obstacles:

- An inability to manage change
- Poor or vague strategy
- Not having guidelines or a model to guide implementation efforts
- Poor or inadequate information sharing
- Unclear responsibility and accountability
- Working against the organisational power structure

Although there could be several ways to improve upon the implementation process in the light of the shortcomings we noted earlier, the means to overcome the barriers to strategy implementation usually revolve around the following two main suggestions:

- *Adopting a clear model of strategy implementation:* Often, implementation activities take place according to the abilities and initiatives of managers involved in them. Even though it being a process, implementation moves in fits and starts. This uneven progress of the process does not do much good for the effectiveness of implementation efforts. Again, managers often do things which *they* consider to be important; they do not do things which *are* important enough to be done. This results in a lot of confusion and uncoordinated actions. What is required is a clear model of the strategy implementation process that can provide unambiguous guidelines to the managers implementing the strategy. Such a model should lay down the elements, or at least the major themes, of implementation process so that there is a high level of understanding of how the process has to proceed. At the same time, there needs to be comprehension of how the various elements or themes are interconnected.
- *Effective management of change in complex situations:* Implementation almost always creates the need to manage change in complex organisational contexts. Many of these areas of change are behavioural in nature and are therefore multifaceted and messy in nature. For instance, leadership style changes required to implement different kinds of strategies or the cultural changes to be brought about to facilitate new strategy implementation are intricate matters that call for careful handling. No wonder, managers often fail to manage these complex organisational issues satisfactorily creating conditions for sub-optimal implementation of strategies.

Our effort in the remaining part of this book would be to focus on these issues. First, we would be describing the process of implementation highlighting the major themes that dominate the process. This would be done in this chapter. Second, we would be devoting considerable space to the discussion of complex issues requiring management of change. These issues would be the subject matter of the chapters that will follow.

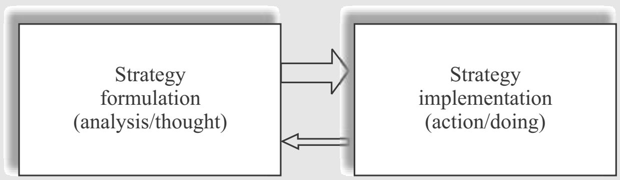
10.3 INTERRELATIONSHIP BETWEEN FORMULATION AND IMPLEMENTATION

LO 3

Before we move to an examination of the major themes in implementing strategies, it is important to consider the interrelationship between the formulation and implementation of strategies.

It is to be noted that the division of strategic management into different phases is only for the purpose of orderly study. In real-life organisations, the formulation and implementation processes are intertwined.[8] Two types of linkages exist between these two phases of strategic management as shown in Exhibit 10.2. The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction. The forward linkage is stronger and is therefore shown in a bigger-sized arrow as compared to the backward linkage.

Exhibit 10.2 Two-way Linkage between Formulation and Implementation of Strategy



Forward Linkages

The different elements in strategy formulation starting with the various constituents of strategic intent through environmental and organisational appraisal, strategic alternatives, strategic analysis, and choice to the strategic plan determine the course that an organisation adopts for itself. With the formulation of new strategies, or reformulation leading to modified strategies, many changes have to be effected within the organisation. For instance, the organisational structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to formulation of strategies. A whole lot of changes have to be undertaken in operationalising the formulated strategies. Clearly, the strategies formulated provide the direction to implementation. In this way, the formulation of strategies has forward linkages with their implementation.

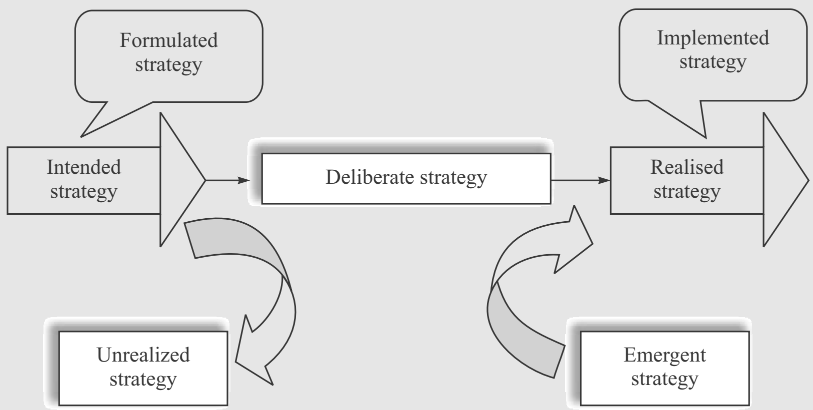
Backward Linkages

Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. Recall that in the previous chapter, while dealing with strategic choice, we observed that past strategic actions also determine the choice of strategy. Organisations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time, take the organisation from where it is to where it wishes to be.

It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making. Looked at from another angle, formulation is a managerial task requiring *analysis and thinking*, implementation primarily rests on *action and doing*.

The two-way linkage between strategy formulation and implementation is brought to the fore quite well in a classic article by Henry Mintzberg. He suggested that the strategies that are formulated do not get implemented in the intended way. Rather, implementation faces unforeseen circumstances so that, in practice, strategists have to manoeuvre around the emerging circumstances dropping some of the parts of the intended strategy that is the unrealised strategy and adding some other elements that are the emergent strategy. Ultimately what is implemented is the realised strategy.[9] The way how this happens is shown in Exhibit 10.3.

Exhibit 10.3 Mintzberg's Conception of the Types of Strategies



Source: Based on H. Mintzberg,'Pattern in Strategy Formation,' *Management Science*, 24, no. 9 (May, 1978): 945.

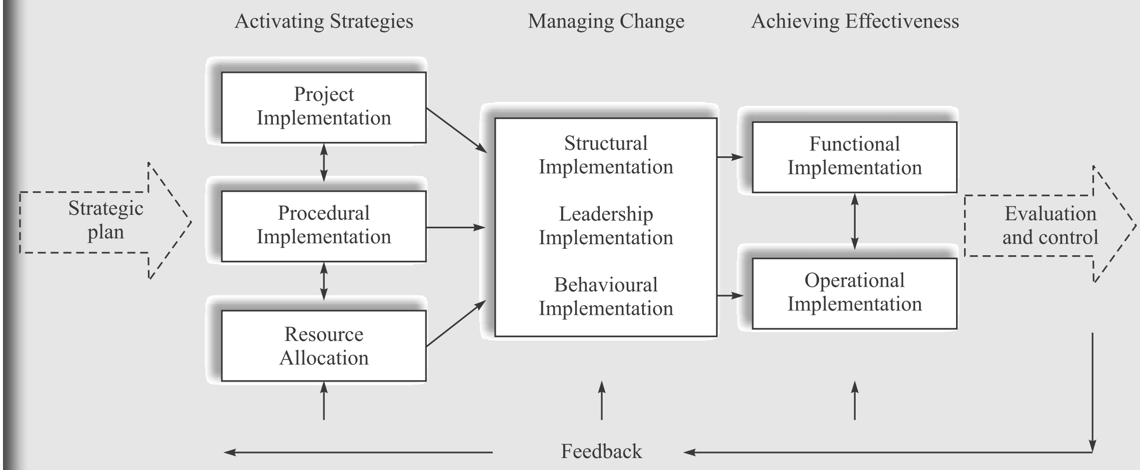
In order to understand Mintzberg's explanation, imagine that there is a company that started with a formulated strategy of related diversification through forward integration. Its strategic plan envisaged the method of acquisition of another company. When it actually got down to implementing its strategy it found that it could not acquire that company owing to exorbitant price demanded. A revision of strategic plan was made to establish a new factory. In this manner, the company started with related diversification through forward integration(intended strategy), could not acquire another company (unrealised strategy), established a new factory (emergent strategy), and achieved its realised strategy of related diversification through forward integration by a different method. Real-life business situations are like that. Not many of the assumptions made during strategy formulation turn out to be true. There are frequent revisions of strategic plan. Overall, the endeavour is to move ahead surmounting obstacles posed by the circumstances towards the pre-determined direction so that achievement of objectives takes place. Formulation and implementation of strategies operate in an iterative manner where both feed upon each other in a two-way relationship. The forward and backward linkages between formulation and implementation create a dynamic interconnection the nature of which keeps changing according to the emerging circumstances.

The next section focuses on the major themes in the implementation of strategies.

10.4 A MODEL OF STRATEGY IMPLEMENTATION LO 4

Exhibit 10.4 presents a model of strategy implementation that attempts to capture the major themes in strategy implementation and the activities that make up each theme. The forward linkage from strategic plan guides the implementation process and connects it to the preceding phase of strategy formulation. The feedback flowing in reverse from the following step of strategy evaluation and control moves through the implementation phase and goes back to strategy formulation establishing the backward linkage.

Exhibit 10.4 A model of Strategy Implementation



Source: Adapted from A. Kazmi, 'A Proposed Framework for Strategy Implementation in the Indian Context,' *Management Decision,* 46, no. 10 (2008): 1564–81.

Major Themes in Strategy Implementation

The model of strategy implementation depicts three major themes[10]:

- *Activating strategies:* The theme of activating strategies serves to prepare the ground for managerial tasks and activities of strategy implementation. We have identified three sets of activities under this theme that we believe to be relevant for Indian organisations. These are: project implementation, procedural implementation, and resource allocation. These three activities will be discussed in this chapter.
- *Managing change*: The next theme is the core of strategy implementation and deals with managing change in complex situations. We have identified two sets of activities under this theme that should enable us to cover most of the major implementation tasks: structural implementation (Chapter 11) and behavioural implementation (Chapter 12).
- *Achieving effectiveness*: The last theme in strategy implementation is the outcome of the process. This theme will cover two sets of activities of functional and operational implementation. Both these activities will be discussed in Chapter 13.

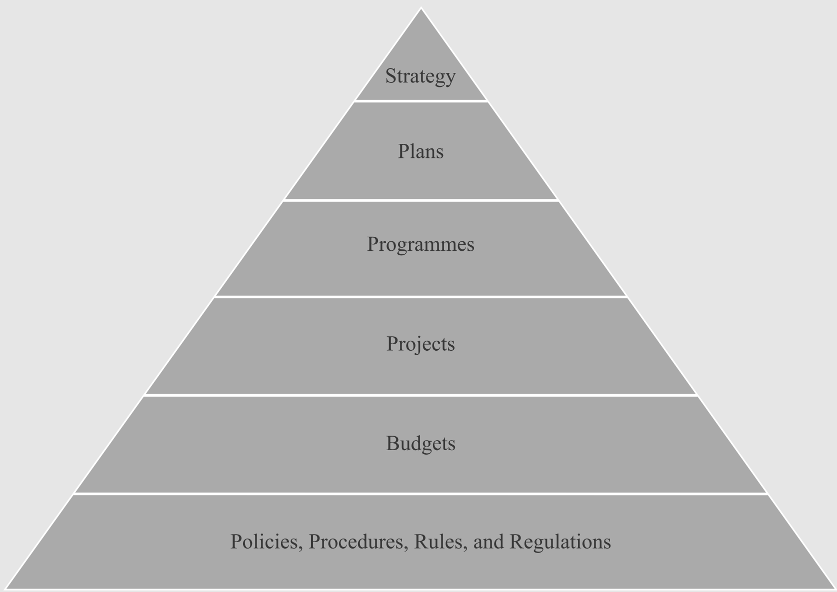
For the purpose of discussion and orderly presentation, we deal with the different themes and the activities of implementation in the sequence indicated previously. But it should be noted that the sequence does not mean that activities under each of the themes are necessarily performed one after another. Many activities can be performed simultaneously, certain other activities may be repeated over time; and then there are activities which are performed only once.

While dealing with the range of activities of implementation, we have to cover a lot of ground in terms of concepts, methods, techniques, and approaches. In practice a strategist would have to draw upon diverse specialisations available within the organisation. Experts from different areas such as project management, corporate management, legal affairs, finance, marketing, operations, and personnel, and economists, planners, technologists, and others contribute in their own respective ways to the implementation of strategies. It would be futile here to go into details of each and every aspect of implementation as the readers of this book will be aware of the different specialisations and functional areas. However, emphasis will be laid on how strategy affects the different implementation activities and how they are adapted to suit the needs of a particular strategy. We move ahead on the assumption that a strategy creates its own requirements of the various activities of implementation. As the strategy is modified or replaced with a new one, each of the activity of implementation need to undergo a change. No wonder, strategy implementation is also—and rightly so—called by some as change management.

The Theme of Activating Strategies

The activation of strategies is depicted in Exhibit 10.5 in the form of a pyramid with strategies at the top. Strategies lead to several plans. Each plan leads to several programmes. Each programme results in numerous projects. Projects are supported by budgets prepared through the resource allocation process. The administrative mechanisms of policies, procedures, rules and regulations support the working of the organisation while it implements the projects, programmes, plans, and strategies. In this manner, strategy sits at the top of a pyramid its implementation being supported by an elaborate administrative structure within the organisation.

Exhibit 10.5 The Pyramid of Strategy Activation



First of all, strategies should lead to plans. For instance, if expansion strategies have been adopted, various types of expansion plans will have to be formulated. An expansion plan could be designed to set up an additional plant to manufacture the same products. Similarly, diversification strategies could lead to new product development plans.

Plans result in different kinds of programmes. A programme is a broad term which includes goals, policies, procedures, rules and regulations, and other steps to be taken in putting a plan into action. Programmes are usually supported by funds committed for plan implementation. An example of a programme is a research and development programme for the development of a new product.

Programmes lead to the formulation of projects. A project is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organisations. Thus, research and development (R & D) programmes may consists of several projects, each of which is intended to achieve specific and limited objectives, requires separate allocation of funds, and is to be completed within a set time schedule. Projects create the needed infrastructure for the day-to-day operations in an organisation. They may be used for setting up new or additional plants, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation strategies.

The administrative mechanisms of policies, procedures, and rules and regulations are ubiquitous in any organisation. Policies are guidelines to action. Since implementation is all about action, policies are of utmost importance to effective implementation of strategies. An example of a policy is: 'Our Company will accept all defective products from customer without any question being asked.' Procedures are the sequential steps described in sufficient detail required to implement a policy. To implement a 'no-question asked' policy the sales department needs to know the procedure to determine whether the product is defective, how will the product be returned, and what steps will be taken to replace the product or return the payment made by the customer. Rules and regulations are the prescribed mode of conduct in a given situation—the dos and don'ts—that serve to make the policies and procedures explicit. To implement the procedure under a 'no-question asked' policy the company managers, especially at the front-level, need to be clear as to what is the rule to determine whether the product is indeed defective or what is to be done if the customer insists on spot payment for returning the product. For instance, should the sales supervisor insist on a sales receipt to accept the product back? Should she accept the product even if the quality certification seal is broken? Should she accept even if the package is mutilated? Rules and regulation thus serve to make it clear what is and what is not be done in a given situation.

A note of caution here: In practice companies may not make such a fine distinction among the different terms as we have done earlier. Some of the managers often are not fastidious to make hairline distinctions between what is a policy, procedure, or a rule. But as students of management we have to understand the difference and learn to distinguish between various terms used in strategic management and make it our second habit to use terms carefully.

The Theme of Managing Change

The literature on management of change is burgeoning, indicating keen interest of academicians as well as practitioners in the subject. You must have got several opportunities to study the topic 'management of change' as a part of your other courses in management. For instance, courses in general management and organisational behaviour deal with various aspect of management of change. Some management institutes also offer a separate course on management of change. Here we will very briefly refer to the subject of management of change in so far as it is relevant to managing strategic change.

In general, strategic management has to deal with dynamic situations within and outside organisations. The external environment is dynamic and so is the internal environment of organisations. An organisation needs to possess the dynamic capabilities to continually adjust in order to respond to the external environment. It also needs to be perpetually on the guard to be internally fit to respond to, or better still to be proactive enough to anticipate, the changes in the external environment. Strategy implementation performs the significant task of keeping the organisation internally fit to be responsive to external environment.

Strategy implementation almost always necessitates change. Managing change, therefore, is an essential requirement for the success of strategy implementation. In contemporary management literature, managers are sometimes referred to as change agents. In the role of change agents, managers are expected to carry through the process of management of change.

Management of change requires understanding of the process of change. The process usually starts with the triggers of change that set off within or outside an organisation. The managers diagnose the organisational problems or proactively anticipate the future challenges and opportunities and then proceed to plan for change.

They identify the need for change, prepare the organisation for implementing change, take steps to manage resistance to change, and then start the actual change process. Having completed the change process, the managers then set a monitoring system to check whether the planned changes are indeed taking place. They may take corrective actions if the change process is deviating from the set course.

Innovation and learning are considered as parts of any change process. Innovation is generally considered as new ways of doing things. A change programme often relies on new ways of doing things to tackle problematic situations or benefit from emergent opportunities. Learning from mistakes and not repeating them is also an essential feature of the change process. The change process offers valuable learning opportunities to managers and quite often they will emerge wiser after they have undergone a change programme.

There are many issues in management of change as it is a complex subject.[11] Three issues are of relevance to us here as we are concerned about managing change as a theme of strategy implementation. These three issues are: the degree of change, the timing of change, and the activity areas of change.

- *Degree of change:* Changes are usually classified as being radical or incremental, the difference being in the degree of change that occurs. Radical changes are 'big bang' changes that involve major transformation within organisation. Examples of radical change in strategy implementation can be redesigning organisation structure, changing the top management team, or putting in place an enterprise-wide resource planning system. Incremental changes are small, slow-moving, and routine changes that take place over a long period of time and usually are limited to one part of the organisation. Looked at individually, incremental changes may not seem exciting but they might add up to big changes in the long-run. Examples of incremental changes may be applying continual quality improvements, rewriting sales or distribution policies, or implementing an attitudinal change training programme for middle-level managers. Incremental changes are a part and parcel of managing organisations and strategy implementation needs to take care of them. Yet, we are typically more concerned about organisation-wide, complex, significant changes as in the case of radical changes.
- *Timing of change:* The degree of change addresses the question: how much change? The timing of change focuses on the question: when to change? Organisations have a choice. They can change either as a reaction to a crisis within or an eventful happening externally in which case it will be a reactive change. When organisations choose to foresee change and prepare to face it, it is anticipatory change. In strategy implementation we are concerned with both these types of changes: the reactive and the anticipatory changes. Ideally, planned strategy implementation would be expected to deal with radical, anticipatory changes. Examples of such changes could be: creating a horizontal structure from a vertical structure to augment rapid response capability, launching an e-business initiative to reach out to suppliers and customers, setting up a joint venture with a global company to internationalise operations or embarking on a culture change programme to create customer-orientation to become sharpen competitiveness.
- *Activity areas of change*: The literature on change management mentions several activity areas of changes sometimes called the methods or types of change. For instance, frequent references are available to technology, new products and services, job redesign, organisation redesign, and the like as the activity areas of change within organisations. For the purpose of strategy implementation, we will be more concerned with three activity areas of structure, leadership, and behaviour. The reason for this choice is that these three areas might be of greater relevance to radical, anticipatory changes in the contemporary Indian context that we are more likely to encounter in strategy implementation. The other areas such as technology or new products and services will be discussed as a part of functional and operational implementation.

Besides the three issues in change we have chosen to include in our discussion there are other issues of significance too. For instance, writings on change management refer to the speed of change as being slow or fast, or change programme being sequential or simultaneous, managing resistance to change by dealing with the barriers to change, and to the role of innovation and learning in change management. We must remember that all these issues are of relevance to strategy implementation.

The Theme of Achieving Effectiveness

In strategic management, we are greatly concerned about organisational effectiveness. Simply stated, organisational effectiveness means the degree to which an organisation is able to achieve its objectives. Suppose a company sets an objective to achieve a return on investment of 10 per cent next year. After the year is over, it measures and finds that it has achieved 10 per cent or more return on investment. We can say that 'the company is effective' or 'the company has achieved effectiveness'. If the company is only able to achieve 9 per cent or lesser return on investment we can say that the company is ineffective. Of course, no organisation would reach a conclusion regarding its effectiveness on the basis of just one or a few measures. There will be a range of measures based on multiple objectives that organisations set for themselves. You might like to go back at this point to Section 2.6 to review what we learnt about objective-setting in organisations.

Organisational effectiveness is a recurring theme in management. Like the theme of managing change, the theme of achieving effectiveness is of immense interest to managers and scholars of management. It generates a lot of research, myriad viewpoints, and many controversies. So far as we are concerned in strategic management, organisational effectiveness is the end that we seek to attain through implementation of strategies. In other words, strategic management has a lot to do about achieving organisational effectiveness.

There are several issues in management and organisational studies literature on the theme of organisational effectiveness. There are several approaches or models available to help us understand what is organisational effectiveness, which measures can we use to assess it, what are the different methods of achieving it, and what can be done to improve organisational effectiveness.

There are four models of organisational effectiveness: the goal model, resource-based model, internal process model, and the conflicting values model. The goal model suggests measuring how well the organisation achieves its goals. The resource-based model lays emphasis on the ability of the organisation to obtain resources. The internal process model focuses on the internal activities of an organisation to assess how well they are working. The conflicting values model is an integrative framework that attempts to consolidate different viewpoints and suggests that organisations do many things and have many outcomes so diverse indicators of performance should be used simultaneously.[12]

The measures of organisational effectiveness depend on which model is used. Common measures in goal model of organisational effectiveness include profitability, growth, market share, quality, efficiency. The resource-based model may use measures such as ability of the organisation to obtain finance, raw materials, human resources, information, and other resources. The internal process model may employ indicators of internal health and efficiency such as the quality of corporate culture, organisational climate, teamwork, and communication. The conflicting values model relies on the use of a wide variety of measures broadly placed under organisational focus which is whether dominant values within organisation concern issues that are external or internal to the organisation, and organisation structure which pertains to the extent of stability versus flexibility.

The methods of achieving and the means to improve organisational effectiveness cover a wide array of managerial activities. These include, for instance, financial management, marketing management, operations management, HR management, and information management. You are well aware of several of these activities covered in various courses that you study in your management education programme. For the purpose of orderly discussion, we have identified two activity areas of functional and operational implementation—the battleground where organisational effectiveness is sought to be achieved—that we will discuss in Chapter 13.

Let us get back to the start of the strategy implementation process and focus on the first step of project implementation for activating strategies.

10.5 PROJECT IMPLEMENTATION

LO 5

As markets get more competitive, senior managers are realising that to get the strategy implemented they need to make sure that the right projects get done on time, within budget provisions, and to specifications. Projects are not something that are an appendage to strategy implementation but need to be a significant part of the overall strategy supported by the right approach, processes, and tools and techniques.

As mentioned earlier, strategies lead to plans, programmes, and projects. A project is the basic unit of a programme. A programme is a portfolio of projects that may be interrelated and interdependent in complex ways. Several programmes are required to implement a plan. A number of plans are involved in implementing a strategy. At any given time, in an organisation, there might be several projects underway: factory expansion, machines installation, product development, business process outsourcing, business software development, website development, employee empowerment, and so on.

Project and Project Management

A widely accepted definition of project and of project management is provided by the Project Management Institute (PMI). It defines a project as, 'It's a temporary group activity designed to produce a unique product, service or result.' Project management is 'the application of knowledge, skills and techniques to execute projects effectively and efficiently. It's a strategic competency for organizations, enabling them to tie project results to business goals—and thus, better compete in their markets.'[13] Of significance is the fact, that a project is defined as a temporary endeavour irrespective of how big it is, how much money is spent, and what time is required. So long as it is undertaken to achieve a special purpose, it is a project, nonetheless.

Project management is generally thought of as comprising of five sequential processes as follows:

- *Initiating:* Projects are initiated as a part of a programme used to execute a plan to implement strategies.
- *Planning:* A project plan document is prepared providing details of identification of activities, sequence of activities, cost estimates, time schedules, resource requirements, and risk assessment. A formal plan document may also be necessary in case it is required for submission to financial institutions for funding purpose.
- *Executing:* The major part of project management where the activities, identified in the project plan, are put into action.
- *Monitoring and controlling:* Keeping track of the execution process and exercising controls on cost, time, resource utilisation, and risk.
- *Closing:* The formal end of the project involving administrative closure and handing over to operative personnel.

It is to be noted that the processes mentioned previously in project management are more relevant to new sets of activities that are performed to implement expansion and diversification strategies. But for other minor projects like relocation of facilities, modernisation or improvement of technology a similar, though less detailed process, may be followed.

The discipline of project management deals with knowledge related to project formulation, implementation, and evaluation. The discipline has grown tremendously over the years and has developed professional standards and a body of knowledge of its own. Yet, project management is still widely perceived to be a technical function dealing typically with large-scale construction projects. As a result, project management is a mature discipline for development projects such as construction of bridges and dams, chemical processing plants, factories, and power stations. The fact is that the principles and techniques of project management have a high relevance to the tasks of strategy implementation and is actually a techno-managerial function requiring technical expertise as well as managerial and leadership skills. The principles and techniques of project management can be applied to large-scale projects as well as to minor projects within organisations.

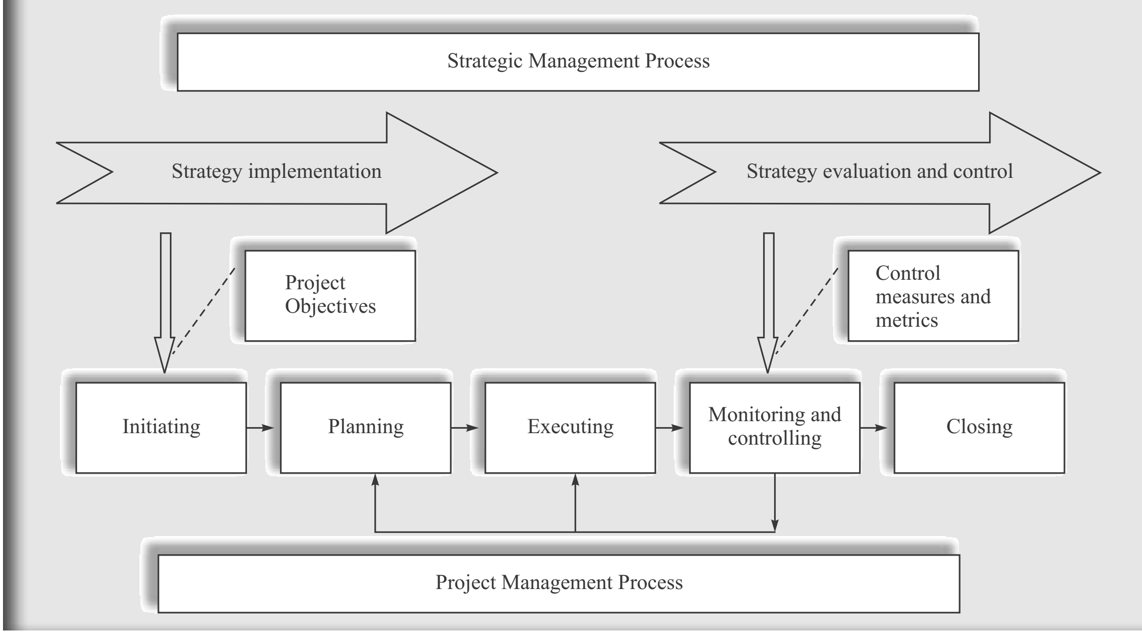
The non-profit sector is a prolific user of project management in its various activities. Recognising its importance, several management institutes in India offer project management as a course or a specialisation, training institutes offer executive development programmes and certification is offered by institutions.

Project Management and Strategy Implementation

Contemporary management literature suggests that organisations formulate and implement strategies and in doing so projects are chosen as vehicles to implement strategies. Project management is commonly considered as an important business process. In such situations, organisations need to ensure that projects are executed fully in line with the strategies they support. The alignment of project management and business strategy helps organisations to focus on the right projects given the objectives sought to be achieved.[14]

Project management is the key enabler of strategy implementation within organisations. Exhibit 10.6 presents a schematic representation of how might strategy implementation be done through project management. The project management process shown relates to one project to demonstrate the manner in which strategy implementation could help initiate the project by providing a set of clear project targets to be achieved. It must be remembered that a similar arrangement works for other projects that may be a part of a programme under the strategic plan. The succeeding step of strategic evaluation and control would support the controlling stage of the project process by providing a set of control measures. These control measures are the performance criteria on the basis of which project effectiveness would be assessed.

Exhibit 10.6 Strategy Implementation through Project Management



The linking of the project management process with strategy implementation helps in creating a project-oriented organisation. Creating such a linkage may however pose a complex organisational challenge before managers as this requires a high level of coordination. But once achieved, the significance of project management changes; project management integrates with the strategy implementation framework. Overall, this exercise could enhance the ability of the organisation for successful project management thereby augmenting the effectiveness of the strategy implementation process.[15]

Read Exhibit 10.7 to learn about a company that launched an information technology (IT) project in line with its business strategies. Note how the company adopts a structured approach to project management in line with its business strategies.

Exhibit 10.7 Information Technology (IT) Project Implementation at Madura Fashion and Lifestyle

Madura Fashion and Lifestyle—MFL—(till 2010, known as Madura Garments), a unit of Aditya Birla Nuvo, is a branded apparel company that owns international brands like Allen Solly, Louis Philippe, People, Peter England, and Van Heusen. It also runs an exclusive chain of stores by the name of The Collective and Planet Fashion and an online store Trendin.com. The company also supplies to international brands like Marks & Spencer's, Tommy Hilfiger, Polo, and Ralph Lauren. In order to take advantage of the opportunities in the growing Indian retail industry the company launched new brands with high-end positioning from product to lifestyle and entered into bigger retailing formats from wholesale.

Aditya Birla group's Indian Rayon acquired Madura Garments from Coats Viyella of the UK in 1999 as a part of its corporate restructuring exercise. Already established as a major textile producer, Aditya Birla group's purpose was to vertically integrate into the premium menswear market. Having established presence in the menswear segment by the late 1990s, Madura Garments adopted expansion strategies of market development into women's wear and international strategies of moving into foreign markets such as the Middle East. These strategies placed enormous pressures on the internal systems and operating practices of the company. For instance, new and innovative sourcing initiatives had to be launched to implement the business strategies.

Madura Garment's managers identified two weak areas in the strategy implementation process: operations and management information system. The latter problem arose owing to the legacy, non-integrated IT systems that lacked the capability to provide updated information for new product development. The solution was to implement a comprehensive and integrated IT package that would facilitate company-wide integrated information system covering all functional areas. Reduction of inventories and increase of order fulfilment rate were set as the effectiveness measures. These were designed to lead to faster decision-making impacting quality of customer service helping the company to maintain its competitive edge in a challenging albeit growing market.

A formal, structured approach was adopted to implement a project titled SAFFIRE (System that is affordable, fast, flexible, integrated, robust and efficient). The project addressed not only the area of IT systems but also the business processes. The IT system installed was Apparel Footwear Solution (AFS) that was chosen through a rigorous selection process. The project resources included functional team members and technical personnel from the company and the external consultants. The project scope covered the exports office, head office, design studio, and the factories connected to the SAP server at the head office through V-SAT linkages, leased lines and fibre optic cables. The schedule of the project was about a year from 1 August, 2001 through 7 July, 2002.

The project was implemented within the time schedule and achieved its objectives of providing a transparent information system in real-time ensuring tighter and more integrated environment. It helped to reduce response time to both internal and external customers boosting the company's capability to react in a timely fashion to the dynamic apparel market in India.

Sources: M. Bhatnagar, 'Indian Rayon Pockets Madura Garments,'21 December, 1999 *http://www.domain-b.com/companies/companies_i/indian_rayon/19991223indian_rayon_madura.html;* 'Madura Garments: Weaving a Success Story with Tech,'20 August, 2004 *http://smbzone.indiatimes.com/articleshow/866565.cms;* 'McKinsey to shape UpBirlas' Retail Plans,' *The Economic Times*(29 August, 2006); and T. Deshpande and G. Seshan,'Madura Garments Plans Brand Extension,'*Business Standard*(21 September, 2007) and MFL's company website at *http://adityabirlanuvo.com/maduragarments/profile.aspx?id=Ry2ILhnoSIA=*. All websites retrieved 21 October, 2014.

Most internal projects of a functional and operational nature implemented by Indian companies may not require any external intervention except perhaps advice and support solicited from management and technical consultants. But bigger projects like creating a new company, setting up a factory, or entering into foreign collaboration necessitate interacting with the regulatory authorities of the government requiring many procedural formalities to be dealt with. The next topic of our discussion would be procedural implementation.

10.6 PROCEDURAL IMPLEMENTATION

LO 6

Regulation is a fact of life for businesses and industries. Governments and regulators are among the more important stakeholders of firms. Despite deregulation, that is intended to loosen the controls—within which any industry or business operates—and let the market forces determine supply and demand for products and services, there is still more regulation around the world. Often, old regulation is replaced with newer ones as novel challenges arise and societies and governments respond to them. For example, the concern for environmental protection led to the Kyoto Protocol, requiring the energy industry to be regulated for controlling emission of carbon dioxide and the need for companies to strategise on how to deal with the increased cost of emission control. It also led to the creation of a new industry of trading carbon credits where more prolific polluters can buy carbon credits from benign ones.

There are controversies galore on questions such as whether or not regulation needs to be there, if regulation is needed then how much of it is necessary; is self-regulation better than imposed regulation, and so on. Many industrialists and managers consider regulation as a necessary evil to be tolerated somehow. They have a point as regulation is often confusing, cumbersome and may lead to inefficiency and corruption. For organisations, there are costs of compliance with regulation and usually higher costs of non-compliance too. Yet, regulation is necessary as businesses and industries have to operate within the limits set by the society. Regulation is a sort of contract between the business and society. At times it has to protect the society from the excesses of business. On the positive side, it lends legitimacy to business.

'For companies in many nations, regulatory policy increasingly shapes the structure and conduct of industries and sets in motion major shifts in economic value… The far-reaching impact of regulation means that for companies to maximize their long-term value, they must link up their regulatory strategies with their product, business unit, and corporate strategies.'[16]

We will adopt a pragmatic view here and consider regulation as a given factor in the business environment that any organisation has to respond to. For doing so, organisations need to understand the regulatory mechanisms in countries where they operate and conform to the rules laid down for the purpose.

Regulatory Mechanisms in India

Any organisation which is planning to implement strategies must be aware of the procedural framework within which the plans, programmes, and projects have to be approved by the government at the central, state, and local levels. The procedural framework consists of a number of legislative enactments and administrative orders besides policy guidelines issued by different levels of the government from time to time.

The regulatory mechanisms for trade, commerce, and industry in India span a wide legal framework consisting of the Constitution of India, the Directives Principles, Central laws, State laws, general laws, sector-specific laws, and industry-specific laws, and the rules and procedures prescribed by the implementing authorities at various levels of the government.

Following the procedures laid down for project implementation constitutes an important component of strategy implementation in the Indian context. The government has an elaborate set of procedures depending on the type of projects to be implemented. Government agencies at the Central and State levels play a major role while some procedures require the involvement of the local governmental agencies too. All the subjects, having a bearing on industrial development, are handled by different ministries and departments at the Central government level. There are apex level committees such as the Cabinet Committee on Economic Affairs. Apart from these agencies, the regulatory agencies such as the Central Electricity Regulatory Commission (CERC), Telecom Regulatory Authority of India (TRAI), or Insurance Regulatory and Development Authority (IRDA) also play a significant role for specific industries. At the State level, the Directorate of Industries is the pivot around which the entire industrial activity in the State revolves. At the local level, the municipal and local authorities may be involved in approval of building plans and construction activities.

Further in this section, we shall briefly review some of the major elements of the government's regulatory framework. The purpose is to discuss the procedural aspects under the regulatory environment in India so far as they are relevant for the purpose of strategy formulation and implementation. You can learn more about these issues in other courses such as 'Business and Law' or 'Business and Government' that might be a part of your management curriculum. Practically, industrialists and entrepreneurs seek help and assistance from specialists such as chartered accountants, company secretaries, industry experts, lawyers, and consultants in procedural implementation.

It must be noted that the framework of procedural implementation is based on the prevailing procedures at the time of writing this part of the book. Government policies, laws, rules and regulations, and procedures are constantly under change especially under the dynamic conditions where India is fast adapting to the international environment and incorporating liberalisation and globalisation measures in its policies. It would be good if you take care to find out the latest available position regarding these regulatory mechanism and procedures.[17] The notes and references to this chapter also provide a wealth of information to access latest information on regulatory mechanism in India.

The regulatory elements to be reviewed are as follows:

1. Formation of a company
2. Procedures for industrial assistance
3. Facilitation for fair competition
4. Procedures for foreign collaboration
5. Procedures for foreign trade
6. Protection of intellectual property
7. Requirements of labour legislation
8. Requirements for consumer protection
9. Requirements for investor protection
10. Requirements for corporate sustainability
11. Requirements for availing incentives and facilities

Formation of Company The formation of the company is governed by the provisions of the Companies Act, 1956. The Companies Act, 2013, has been notified and many of the provisions of the Act have been implemented while the provisions of Companies Act, 1956, are still in force.[18] The Companies Act, 1956, consists of promotion, registration, and floatation of companies. A huge majority of commercial organisations are formed not as companies but as limited liability partnerships formed under the Limited Liability Partnership Act, 2008. Formation of non-profit organizations (NPOs) may be done under the Societies Registration Act, 1860, Indian Trusts Act, 1882, and Multi-State Cooperative Societies Act, 2002.

Corporate strategies such as integration and diversification may lead an organisation to form a separate company to expand or enter a new business. In such a situation, it becomes important for the organisation to plan for procedural implementation for the creation of a new company. This may involve several steps such as obtaining clearance for the name of the company, drawing up the articles and memorandum of association, and creating a board of directors. There are important strategic management tasks to be done. For instance, the setting of vision and mission need to be established at this stage to guide the writing of articles and memorandum of association (MOA). Corporate governance mechanisms need to be set for the effective working of the board.

Procedures for Industrial Assistance The system of planning (or planned development) rests on three policy documents consisting of the Industrial Policy Resolution, 1956, Industries (Development and Regulation) Act, 1951, and statements of 1978, 1980, 1982, and 1991. The Industries (Development and Regulation) Act, 1951, provided for a licensing system for the development and regulation of scheduled industries—those industries listed in the Schedule of the Act. A license is a written permission from the Government to an industrial undertaking to manufacture specified articles included in the Schedule. The licensing procedure requires the applicant to approach the Secretariat for Industrial Assistance (SIA), which is a common secretariat for receiving and processing all types of applications related to medium- and large-sized industrial projects including those for foreign direct investments.

One of the significant liberalisation measures has been to abolish industrial licensing, irrespective of the level of investment, for all industries except a few. These industries relate to security, defence, or environmental and health concerns or those that require setting up production units in restricted urban locations or manufacturing of items reserved for the small scale sector. All other projects not requiring license just have to submit an Industrial Entrepreneur Memorandum (IEM). Foreign direct investment (FDI) is allowed in most sectors except those prohibited or subject to restrictions.[19]

From the viewpoint of procedural implementation, the strategic tasks required for seeking industrial assistance are few and more in the nature of seeing that the organisation does not take a strategic direction that may involve getting into the net of licensing. If that becomes necessary, then the organisation should have a contingency plan for likely delays in project implementation due to the time taken for approvals to be secured.

Facilitation for Fair Competition In India, competition in industry is regulated through the provisions of the Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007. The Act prohibits anti-competitive agreements; prevents abuse of dominant position by companies; and regulates combinations such as acquisition, acquiring of control, and mergers and acquisitions (M&As) which may have an adverse effect on competition. The overarching goals of the Commission are to create and sustain fair competition in the Indian economy that provide a 'level playing field' to the organisations and ensure that the markets work for the welfare of the consumers.[20]

The activities of the Commission are overseen by the Competition Commission of India (CCI) that works to eliminate practices having adverse effect on competition, promotes and sustains competition, protects the interests of consumers, and ensures freedom of trade in the markets. It also acts as advisory agency to other statutory bodies of the government, and works for competition advocacy, creates public awareness, and imparts training on competition issues.

As can be seem the requirements under the Competition Act are likely to have substantial impact on some of the strategic issues within organisations such as implementation of competitive and business strategies, functional strategies especially in the area of marketing or M&As.

Procedures for Foreign Collaboration Many strategic alternatives (for instance, expansion/diversification into high technology industries or internationalisation strategies through joint ventures) call for foreign collaboration and investment. Joint ventures have been considered an important route for attracting foreign investments into and encouraging them outside India. The government policy, in general, allows foreign investment and collaboration on an automatic basis with some exceptions such as those where industrial licensing is required or where the provisions of the Securities and Exchange Board of India (SEBI) are applicable.

Foreign investments are of two types: foreign direct investment (FDI) and foreign institutional investment (FII) or portfolio investment. Foreign direct investment can take place through wholly-owned subsidiaries, joint venture, or acquisition. Portfolio investment takes place through investment by the foreign institutional investors and investments in instruments such as global depository receipts (GDRs) and foreign currency convertible bonds (FCCBs). Special treatment is accorded to non-resident Indians (NRIs) and overseas corporate bodies (OCBs) predominantly owned by NRIs in matters of foreign investments. The FDI policy is reviewed on an ongoing basis and measures for its further liberalisation are taken.[21]

Foreign technology acquisition is a major component of foreign collaboration and is encouraged for the purpose of enhancing the technological capability of Indian industry. Payments to be made for importing technology are done through the Reserve Bank of India (RBI) through the automatic as well as government approved routes. The dealings in foreign exchange are administered through the Foreign Exchange Management Act (FEMA), 1999, that aims to facilitate external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India.

The Ministry of Commerce and Industry, Department of Industrial Policy and Promotion, RBI, and Foreign Investment Promotion Board (FIPB) are the major regulatory agencies in the case of foreign collaboration procedures.

Procedures for Foreign Trade Strategy implementation in areas such as diversification and internationalisation requires the consideration of foreign trade requirements in related to import and export. Imports are vital for capital goods and raw materials provision for new and existing projects. Exports are often the first step as an entry mode to internationalisation of an organisation. Thus, foreign trade requirements constitute an important part of any strategy implementation exercise.

The Central government has the powers to prohibit, restrict, regulate, exempt, or promote foreign trade. Over the years, the function of promotion has gained prominence owing to liberalisation and the desirability of getting connected to the global economy. The Department of Commerce in the Ministry of Commerce is responsible for the country's external trade and all matters connected with commercial trade relations with other countries. The policy implementation and the legal framework for imports and exports in India are largely based on the Foreign Trade Development and Regulation Act (FTDRA), 1992, and the Foreign Trade (Regulation) Rules, 1993. The objective of the Act is to provide for the development and regulation of foreign trade by facilitating imports into and augmenting exports from India. The Directorate General of Foreign Trade (DGFT) under the ministry is assigned the role of facilitator and promoter of export and imports. Foreign trade policy is announced for 5 years corresponding to the national 5-year planning period.[22]

It is important for strategists to understand the rationale for the development and regulation of foreign trade. Fiscal measures are adopted by the government to discourage imports and exports of certain products. The matter of exports and imports has a substantial number of procedural aspects and associated documentation work. Other important matters are related to customs, financing of imports, foreign exchange, and incentives and support for export activities. Specialised knowledge and advice is required to follow the procedures which are quite detailed and comprehensive and require expert handling. The supportive measures for exports will be referred in a later section which deals with incentives and other facilities. Most companies have to rely on export and import in the course of their strategy implementation.

Protection of Intellectual Property Patents, trademarks, designs, and geographical indications (country of origin of product) are assuming greater significance in Indian industry owing to international environmental changes. The major impact on these issues is of the World Trade Organization (WTO) requirements related to the Trade Related Aspects of Intellectual Property Rights (TRIPs) as well as protection of intellectual property created by Indian organisations.

India has been in the long-drawn process of adapting its laws related to patents and trademarks in line with the international requirements. Indian Patents Act, 1970, governs patenting in India and it has been amended in the form of Indian Patents (Amendment) Act, 2005. The Patent Rules are notified by the government from time to time to facilitate the process of filing patents. The regulatory mechanism of patenting are dealt with by the Ministry of Commerce and Industry through the office of the Controller General of Patents, Designs and Trademarks (CGPDTM) that supervises the working of the Patents Act, 1970, the Designs Act, 2000, and the Trade Marks Act, 1999.[23]

The issue of copyrights is especially applicable to music and film and other creative industries such as software development. The Copyright (Amendment) Act, 2012, and Copyright Rules, 2013, govern the protection and enforcement of copyrights in India. The office of the Registrar of copyrights under the Ministry of Human Resource Development (HRD) deals with all matters related to copyrights.[24]

The increasing competitiveness in the business environment has meant that it is necessary to know the rights and privileges and the legal procedures for protecting products and ideas. Familiarity with the law relating to these issues has, therefore, become essential for strategy implementation. These laws are of special significance to industries such as chemicals, computer software, entertainment, food, and pharmaceuticals and the emerging industries such as biotechnology and nanotechnology where patents may often be a major competitive tool. Within organisations, they can have a significant impact on the formulation and implementation of functional policies related to research and development and innovation.

Requirements of Labour Legislation An essential part of procedural implementation in any project as well as in a going concern is that of labour legislation. On the part of companies, labour constitutes a significant resource as well as cost for the purposes of strategy implementation. A trained and motivated workforce can be a great asset, source of strength, and foundation for developing core competence. For the government, the protection of labour interest has long been held to be a major responsibility of the State. Labour law reforms have been progressive in India but organisations and employer's associations have been critical of the slow pace. In their view, labour reforms are necessary for global competitiveness and attracting foreign investment. But governments have been deliberate in their actions since labour is a sensitive political issue.

According to the Indian Constitution, labour is a common subject among the Central and the State governments. While the Central government enacts, amends, and repeals most of the legislation, the major administrative authority to adopt and implement the laws rests with the State governments. Besides the Central and the State ministries of labour, there are a host of commissions, standing committees, statutory agencies, labour courts and tribunals, boards to implement the labour legislation. Labour legislation consists of over 150 Central and State laws related to different aspects. The major aspects are: industrial relations, industrial safety and health, child and women labour, social security, labour welfare, employment and training, and wages.[25] Plethora of laws and rules and regulations, weak enforcement, long and arduous court procedures, and the fact that such laws do not cover a huge majority of unorganised labour are major concerns in labour legislation requirements.

The current scenario is characterised by several significant developments. Among them we have the framing of legislation for the employment and social welfare of unorganised labour that constitutes a majority of workers, emergence of a progressive HRD environment and a more informed and educated working class, waning influence of trade unionism, hesitant attempts at formulating an exit policy for workers, implementation of voluntary retirement or golden handshake schemes for retrenchment, gradual introduction of part-time employment, and outsourcing of parts of operations to external sub-contractors, introduction of performance-related compensation, a youthful but less-skilled pool of potential workers, emerging avenues of non-formal employment, and such other developments. Strategy implementation needs to take all these developments into account. The matter of procedural implementation regarding labour legislation has significant bearing on the implementation of strategies in the areas of objective setting, strategic choice, social responsibility, formulation, and implementation of HR management policies, and various operational strategies.

Requirements for Consumer Protection In the course of strategy implementation, companies are required to conform to legislative measures to protect the consumers. The very fact that 'consumer protection' is an accepted term denotes that there is apprehension that consumers may be subjected to unethical and unfair acts of companies and they need to be protected through the law. The growth of consumerism and consumer awareness coupled with growing competition makes it imperative that companies conform to the procedures laid down in the law regarding consumer protection. Besides the law, there is also the social requirement of being perceived as a consumer-friendly organisation.

The apex level institution for overseeing consumer affairs is the Department of Consumer Affairs under Ministry of Consumer Affairs, Food and Public Distribution that is responsible for the formulation of policies for consumer protection, consumer awareness, setting standards, consumer cooperatives and pricing, and distribution of essential commodities.

In India, consumer protection is ensured through a plethora of legislation the major one being the Consumer Protection Act, 1986. This Act's purpose is better protection of consumer interests and provide for consumer councils and settlement of consumer disputes. It provides for the establishment of a Central Consumer Protection Council and State Consumer Protection Council in each State. The Act also provides for a three-tier consumer disputes redressal system at the district, State, and the Central levels. At the district level, there is a District Forum, State Commission at the State level, and a National Commission at the Central level. These fora are primarily for redressal of consumer disputes and remedial action by the companies.[26]

Consumers or customers constitute a significant aspect in various issues in strategic management. They are the subject of the organisation's vision and mission, objectives are set to satisfy customers, and the business definition is in terms of customer needs and customer groups. Environmental and organisational appraisals give due regard to the customers. Corporate and business strategies are formulated keeping in view the customers. In this context, creation of customer satisfaction and delight are increasingly being seen as central purpose of an organisation. Protecting the rights of customers is in the long-term interest of the organisations. The issue of consumer protection is also highlighted in the procedural implementation at the level of business and operational strategies and in implementation of functional policies related to operations, quality, and marketing.

Requirements for Investor Protection The Securities and Exchange Board of India (SEBI) Act, 1992, led to the creation of a statutory body SEBI in 1992. According to the SEBI Act, the objectives of SEBI are to protect the interests of investors in securities and to promote, develop and regulate the securities market. It is a quasi-judicial body, under the Securities Laws Ordinance, 1995, to deal with issue of capital, transfer of shares, and other related aspects. Its jurisdiction covers primary market, secondary market, mutual funds, foreign institutional investors, and foreign brokers.[27]

The SEBI enjoys comprehensive power of the significant aspects of the Indian capital market and is generally considered to be one of the most important of the regulatory bodies in India. It issues guidelines from time to time to oversee matters under its control. These guidelines are of relevance to companies accessing the capital market for funds for projects emanating as offshoots of their corporate and business strategies. For the purpose of strategy implementation, this Act is relevant so far as the provision of financial resources is concerned. Apart from this, this Act also affects mergers and amalgamations as they regulate the capital reorganisation plans for mergers.

Requirements for Corporate Sustainability The challenges of corporate sustainability are starting to create requirements for organisations that need to be fulfilled on the basis of law as well as voluntary action. There is realisation among the business and industry in India that they would need to address the concerns of sustainability. Many organisations are already responding and several others are in the process of formulating their responses. Corporate sustainability is a vast area including governance, social responsibility, stakeholder management, and adherence to values and ethics. Requirements for corporate sustainability would include some that we have already covered such as protection of investor, consumer and labour rights, engaging in fair competition, and respecting intellectual property rights. Of particular concern to sustainability are the issues of protecting natural environment.

There are a host of Central and State laws dealing with the protection of natural environment and prevention and control of pollution supported by policies, procedures, and rules.[28] The apex-level body for matters related to environment in India is the Ministry of Environment and Forests that deals with the implementation of the laws and policies and programmes relating to conservation of the country's natural resources. The major responsibility to deal with environmental issues lies with the State Pollution Control Boards (PCBs). The boards implement the pollution control laws. Any new project has to seek a no-objection certificate from the board which then regulates and monitors the emission and discharge of hazardous wastes and ensures waste recycling and eco-friendly practices. Such monitoring takes place on the basis of standards including ambient air quality standards for discharge of effluents and emission of smoke and vapour, and noise.[29]

Other sustainability issues such as stakeholder management, corporate governance, corporate social responsibility, and values and ethics have several requirements to be adhered to and fulfilled by the organisations. We have already discussed requirements of stakeholder management by referring to labour, consumers, and investors. Governance issues have been addressed through several provisions in the Companies Act, 2013, and expectation of voluntary corporate actions. Corporate social responsibility is mandatory and companies have to spend a part of their profit toward discharging their social responsibilities.[30] Organisations and its individual members have also to conform to the penal code as well as prevention of corruption laws in order to maintain values and ethics in their operations.

The Ministry of Corporate Affairs, Government of India, had mandated the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' and disclosure regarding steps taken by listed entities from an environmental, social, and governance perspective. These guidelines contain comprehensive principles to be adopted by companies as part of their business practices. The high market capitalisation firms are required to include 'Business Responsibility Report' in their annual report while other firms are encouraged to include it voluntarily.[31]

Several issues of importance in strategic management are of concern with regard to corporate sustainability including environmental protection and pollution control. Some of the major ones are of the designing of vision and mission statement, objective-setting, and constraints of objective achievement, environmental appraisal, corporate strategies of expansion, and corporate governance and social responsibility policies. A number of NPOs adopt the significant issue of environmental protection as their mission. Project implementation, particularly in the case of polluting industries such as process-based and chemical industries, requires adherence to the procedures laid down for environmental protection and pollution control.

Requirements for Availing Incentives and Facilities The primary instrument for achieving national plan objectives is through regulation. In providing incentives, etc., the government does not play a regulatory but a promotional role. This role is manifested in various forms the major ones being employment generation, export promotion, encouragement of micro-, small- and medium industrial units, and correction of regional imbalance. The fiscal, monetary, and budgetary policies of the government are aimed at stimulation of activity in the priority industrial sectors. Discretionary control over money supply and banks and financial institutions' lending rates are used to affect industrial activity. Budget pronouncements may result in reduction of excise duties, corporate and personal taxation rates, etc., which increase availability of finance for expansion activities.

The policies and schemes for incentives and facilities are dynamic and are introduced, revised, and updated regularly to respond to changing needs and emphases. Some of the major policies and schemes are: loans at concessional rate of interest, subsidies in various forms, establishment of special economic zones, tax holidays and tax concessions, and single-window clearances for industrial projects.

The government also plays a promotional role in terms of purchasing, pricing, distribution, availability of raw materials, and provision of infrastructural facilities. A number of industries are critically dependent on government purchases. The Directorate General of Supplies and Disposals (DGS&D) is the largest purchasing agency in the country. In many industries, the critical success factors include the regular availability of vital raw material in sufficient quantities. Through the provision of infrastructural facilities such as power, water, skilled manpower, banking and financial services, health services, public utilities like transportation, and industrial sites and sheds, the government seeks to ensure balanced regional development through dispersal of industries.

Various State governments and Union Territory administrations offer additional schemes. The schemes are administered through the central and state level ministries and departments by involving financial institutions. Expansion strategies can be implemented profitably if the various incentives can be availed of under the different government schemes. In the special case of small-scale industries wishing to implement their strategies, many benefits can be availed through the Development Commissioner of Small-scale Industries and its numerous agencies situated at various places in India. Export promotion efforts by the government take the form of several incentives like liberal import facilities, priority in financing and transportation, etc. Hundred per cent export-oriented units and units in free trade zones (FTZs) and special economic zones (SEZs) enjoy special incentives and facilities. Similarly, NPOs too are eligible for various forms of assistance.[32]

From the point of view of strategic management, all the measures mentioned earlier which are undertaken by the government are highly relevant for business organisations. Strategic decision-making has to take these factors into account in objective-setting, strategic choice, and strategy implementation. Project implementation for putting a strategy into action requires a consideration of various incentives, subsidies, and facilities. It is beneficial for entrepreneurs to be aware of these so that due advantage can be taken.

Procedural Implementation in Action

In the preceding subsections, we have attempted to provide information related to a broad range of elements in the regulatory framework within which Indian organisations have to operate. It is to be observed that the role of the government is quite comprehensive and affects practically each and every aspect of an organisation's management especially activities related to strategic management.

An important question is how the strategists should react to regulation. Strategists may adopt a submissive, confrontational, or collaborative stance. They can try to conform to the regulations, confront the regulations by informed criticism and lobbying and public relations, or work with the government to improve the regulatory framework. At the same time they can adopt an 'existentialist' view and continually look for opportunities within the business environment as such an environment is substantially affected by government plans, priorities, policies and actions. Regulatory environment, just like other environmental sectors, is dynamic. Governments respond to the developments within and outside the country to adapt the regulatory framework to the changing times. This places an additional burden on strategists to not only follow the existing framework but also anticipate the likely future changes and be prepared to deal with them.

Several organisations—usually large ones and ironically, even public enterprises—maintain close liaison with various governmental agencies in order to get approvals, sanctions, permissions, and statutory benefits. This liaison is exercised through formal as well as informal means. Formally, companies maintain liaison offices in New Delhi and State capitals or employ advisors and consultants who assist and guide the organisation regarding procedural matters. Companies going in for expansion strategies, particularly diversification, usually look for industry experts, consultants, and retired civil servants who can advise them on all the aspects of establishment of project and guide them through the maze of governmental regulations. Most companies appoint or contract out the services to chartered accountants, company secretaries, legal experts, and lawyers to advise them on procedural and legal matters. While expert advice and support is necessary, often area experts lack a holistic view that only strategists can provide. Informally, organisations may seek to coordinate and influence governmental action through political donations and informal lobbying.[33]

In the special case of the organisations that adopt internationalisation strategies, they should be ready to face unfamiliar regulatory environment in the countries they choose to operate it. Legal systems, government policies and procedures, and institutional mechanisms differ across countries. Procedural implementation should accordingly differ according to national context.

We have indicated the major regulatory and promotional aspects that have to be considered by strategists. Many specific situations and areas, for instance, the matter of direct and indirect taxation are dealt with the relevant laws and procedures. Industrial sickness is to be dealt with under the Sick Industrial Companies (Special Provisions) Act, 1985. Strategists would have to be aware of the details of procedural implementation relevant to the industry to which their companies belong to.

Strategy formulation and implementation, within organisations, have to closely follow the ground rules laid by the governments. Project and procedural implementation result in the necessary infrastructure and required permissions for an organisation to proceed with other aspects of strategy implementation. The next important issue that strategists are called upon to deal with is that of resource allocation and is the subject matter of the next section.

10.7 RESOURCE ALLOCATION

LO 7

A strategic plan documents the aspirations of strategists. Project implementation is for the creation of infrastructure to enable them to put such a plan into action. Procedural implementation seeks to get the 'go ahead' signal. But nothing really happens until resources are procured and allocated to tasks for accomplishment of objectives.

Resource allocation deals with the procurement, commitment, and distribution of financial, human, informational, and physical resources to strategic tasks for the achievement of organisational objectives. We noted, in Section 5.1, how organisational resources in tandem with organisational behaviour constitute the foundation for the creation of strengths and weaknesses, synergistic advantages, core competencies, and organisational capability ultimately leading to the competitive advantage that an organisation has. The importance of resource allocation can be observed from the fact that strategic management itself is sometimes referred to as a 'resource allocation process'.[34]

Resources allocation is both a one-time and a continuous process. When a new project is implemented, it would require allocation of resources. An ongoing concern would also require continual infusion of resources. Strategy implementation should deal with both these types of resources allocation. Resource allocation especially for financial and physical resources could be done through budgeting.

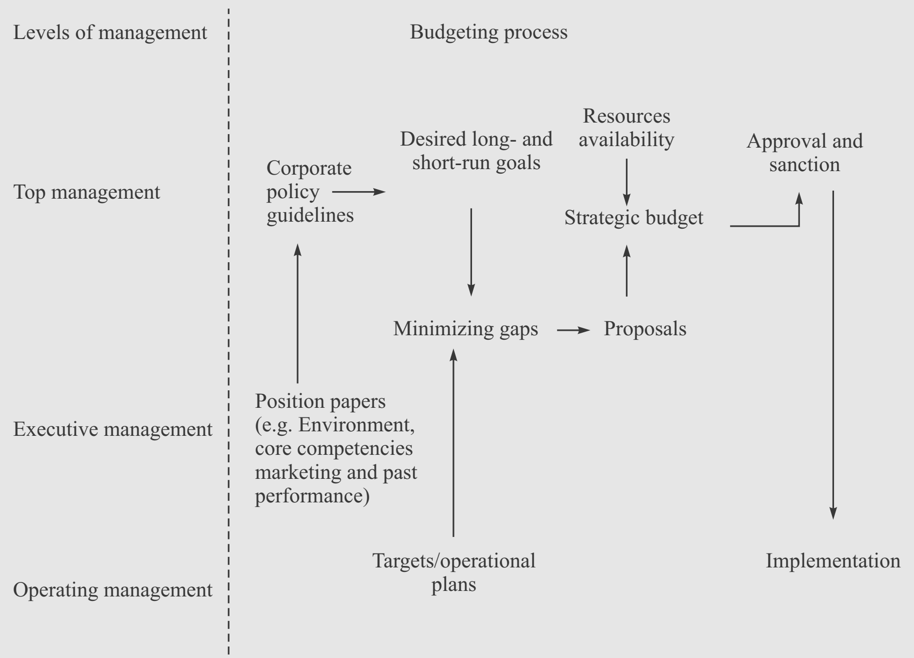
Strategic Budgeting

The main instrument for resource allocation is a budget. Budgeting is a common technique used as a planning, coordination, and control device in management. Its usage is widespread in organisations. The topic of budgeting is covered exhaustively in texts in the area of financial management. But apart from traditional budgeting where stress is on accounting, a budget is increasingly being used as a dynamic management tool.[35]

Broadly, there could be three approaches to resource allocation through budgeting. The first type is a top-down approach where resources are distributed through a process of segregation down to the operating levels. The corporate management, consisting of the Board of Directors, CEO or managing director (MD), and executive committee could decide the requirements and distribute resources accordingly. The top-down approach is usually adopted in an entrepreneurial mode of strategy implementation. The second type is a bottom-up approach where resources are allocated after a process of aggregation from the operating level. The bottom-up approach could be used in a participative mode of strategy implementation. A third type of approach is a mix of these two and involves an iterative form of strategic decision-making between different levels of management. This approach (or other similar approaches) has been termed as strategic budgeting.[36]

The difference between strategic and traditional top-down budgeting lies in the way the budgeting exercise is carried out in an iterative manner between different managerial levels and the assumptions made before the formulation of budgets. Exhibit 10.8 illustrates a probable way in which a strategic budget could be prepared. Position papers on different aspects such as environment, distinctive competence, marketing, past performance, etc., are prepared and presented to the top management which uses them in formulating corporate policy guidelines and stating long- and short-term goals. The operating management meanwhile prepares operational plans and sets targets which are coordinated with the corporate objectives through the executive management. Based on resources availability and corporate guidelines, the strategic budget is prepared by the executive-level committee and presented to the top management for approval and sanction. The strategic budget is then communicated down the line and tasks of implementation taken up.

Exhibit 10.8 Making of a Strategic Budget



As can be seen from the earlier description, strategic budgeting is an iterative process involving a multi-level, organisation-wide effort and, therefore, needs to carry the approval of all concerned. More importantly, it takes into account strategic factors such as environmental changes and their likely impact on the implementation of strategies, and the corporate core competencies and their probable effect on the objective-achieving capability of the organisation. This is the reason why it is termed as a strategic budget.

Aligning Resource Allocation to Strategy

As we said in the beginning of this section, resource allocation deals with the procurement, commitment, and distribution of resources. A major task of top managers is resource allocation. Strategy guides managers in making decisions about resource allocation. It does so by laying down clear priority among competing plans, programmes, and projects.

Typically, at any given point of time, there are several activities that demand managerial attention. In the course of day-to-day routine work, managers are distracted enough to be diverted away from strategic tasks. It is here that a good strategy serves the purpose of telling the managers clearly where their priorities lie. In the absence of guidance from the strategy, managers can easily end up misallocating resources. Such misallocation of resources can take place in two ways. First, resources get allocated to tasks that are really not necessary from the strategic point of view. Second, tasks that are strategically important may be starved of resources. In both these cases, resources, that are often scarce, get wasted. In other words, aligning resource allocation to strategy means 'putting your money where your mouth is'.

Another challenge before managers in resource allocation is that of trade-offs.[37] Since resources are scarce and organisational tasks that demand resources are often too many, managers end up with making difficult trade-offs in the process of resource allocation. The process of trade-off requires hard choices to be made. For example, there may be a situation where scarcity of resources means that money available for investment may be limited. That limited amount of money needs to be allocated to competing projects each of which demands the attention of managers. In deciding which projects to fund and which projects to postpone or abandon, managers would naturally need to have a clear priority. Another example could be of scarce human resources. There may a high demand for well-qualified, competent IT professionals to put to work on several projects. But the number of such professionals available with the organisation may be limited. In such a situation, there should be a clear priority set so that the available IT professionals could be put to work on strategically important projects.

Focusing on objectives and making trade-offs is often observed in the case of NPOs that have to face the challenge of working under conditions of severe resource scarcity. If an NPO is involved in providing health services then it has to make difficult choices where pressing claims are made upon a limited budget. For instance, there are perplexing ethical choices between giving preference to those who are young and have a longer expected time of survival and good health with treatment rather than mitigating the miseries of older people with limited life span. There might be a dilemma between providing little treatment to more patients rather than extensive treatment to fewer patients. There may be a hard choice between treatment that prolongs life and one that improves the quality of life. Obviously, the way the choice is exercised would depend on the objectives that the non-profit health service provider sets out to achieve rather than merely assessing the cost competitiveness of various options.[38]

All in all, in aligning resource allocation to strategy the basic challenge before the strategists is how to allocate scarce resources to competitive strategic tasks that lead to the accomplishment of organisational objectives and realisation of strategic intent. It would be easier for strategists to allocate resources if the strategic priorities are clear. But setting clear priority practically is often a daunting task. This is so because a variety of factors affect the process of resource allocation. Let us have a look at these factors.

Factors Affecting Resource Allocation

The factors that affect resource allocation are: *the objectives of the organisation, preference of dominant strategists, internal politics, and external influences*.

- *Objectives of the organisation:* In Section 2.6, while dealing with objectives, we stated that objective setting is a complex process. There are a number of objectives. Some are official (or explicit) while others are operative (or implicit). Employees of any organisation tend to judge the importance given by strategists to tasks on the basis of the amount of resource allocated to those tasks. If the chairperson of a company, while presenting the annual report, waxes eloquently on the virtues of human resources but the actual resource allocation does not reflect the importance given to these resources, then HRD is certainly not a priority strategic task. Operative objectives tend to affect the pattern of resource allocation to the maximum extent.
- *Preference of dominant strategists:* The dominant strategists—most often the CEOs—tend to affect the process of resource allocation. Their preferences are reflected in the way how resources get allocated.

Perceptive strategic business unit (SBU), divisional, and departmental heads know that such preferences matter and try to present their demands in line with them or attempt creating interest in the dominant strategists for their demands so that resources can be attracted easily.

- *Internal politics:* The ownership of resources is often misconstrued as possession of power. Those departmental units which are able to attract more resources are perceived as being more powerful. Executives who are in a position to affect the process of resource allocation in their favour are perceived to be more effective. These perceptions make resource allocation a rational-political process.[39] Internal politics within the organisation, therefore, affects the process of resource allocation.
- *External influences:* Apart from internal politics, external influences also affect resource allocation. These influences arise due to government policy and stipulations, the demands of external shareholders, financial institutions, community, and others. For instance, conditions imposed by legal requirements on companies may require additional investments in labour welfare and security, pollution control and safety equipment, or energy conservation. The shareholders may expect a higher dividend or bonus shares and resources may have to be diverted to them. Financial institutions may impose restrictions or require companies to invest in technology upgradation. The discharging of social responsibilities such as contribution to community services may require allocation of funds. Thus, external influences affect the process of resource allocation considerably.

If we look back to the factors described previously, it is easy to recognise that in the absence of clear strategic priorities, the process of resource allocation could be distorted to a great extent. If strategies are made explicit at different levels, objectives are clearly laid down, and strategic priorities are defined unambiguously then balanced allocation of resources is more likely. Several authors and practitioners stress on the strengthening of links between strategies and budgeting and resource allocation.[40] In fact, the absence of clear strategic priorities is often the reason why the process of resource allocation gets distorted. We refer next to some of the difficulties faced in resource allocation.

Difficulties in Resource Allocation

Peter Drucker put forward the idea that the job of an effective manager has three components: (a) analysing available opportunities to produce results and developing an understanding of their costs, (b) committing resources to pursue the most promising opportunities, and (c) when some activities lead to results and others do not, deciding which should receive more resources and which should be abandoned altogether. Drucker described the third component as the 'most painful step'.[41] In this subsection, we deal with that painful step which makes the process of resource allocation so difficult.

The previous subsection described the factors that affect the process of resource allocation. These factors, combined with the fact that the resource allocation process is highly complex, create several difficulties for the strategists. We will discuss four major difficulties here: scarcity of resources, restrictions on generating resources, overstatement of needs, and the tendency to imitate competitors.

- *Scarcity of resources:* The major difficulty arises due to a *scarcity of resources*. Financial, physical, and human resources are hard to find. Firms will usually face difficulties in procuring finance. Even if finance is available, the cost of capital is a constraint. Those firms that enjoy investor confidence and high creditworthiness possess a competitive advantage as it increases their resource-generation capability. Physical resources would consist of assets such as land, machinery, and equipment. In a developing country like India, many capital goods have to be imported. The government may no longer impose many conditions but it does place a burden on the firm's finances and this places a restriction on firms wishing to procure physical resources. Human resources are seemingly in abundance in India but the problem arises due to the non-availability of skills that are specially required. Highly specialised IT and computer professionals, advertising personnel, and telecom, power, and insurance experts are scarce in

India. This places severe restrictions on firms wishing to attract and retain personnel. In sum, the availability of scarce resources is a very real problem faced in resource allocation.

- *Restrictions on generating resources:* Within organisations, there are several difficulties encountered in resource allocation. The usual budgeting for existing SBUs, divisions, and departments places *restrictions on generating resources* for newer units and those with a greater potential for growth. This is often seen in the case of bureaucracies such as government departments. Here the usual way of resource allocation is a fixed percentage of increase over the previous year's budget allocation irrespective of the need of the departments or the projects that they handle. The result is restriction on generating resources for allocating to new departments and projects that might be in greater and more urgent need for resources.
- *Overstatement of needs:* Another frequent problem, especially, in a bottom-up approach to resource allocation is of overstatement of need for resources. The budgeting and corporate planning departments may have to face the ire of those executives who do not get resources according to their expectations. Such negative reactions may hamper the process of strategic planning itself. When strategic budgeting is used for resource allocation, powerful units may be divested of resources for reallocation to potential units. 'Budget battles' may ensue if resource allocation affects vested interests.
- *Tendency to imitate competitors:* It is interesting to observe that companies in an industry tend to imitate their competitors in terms of resource allocation. No wonder, companies in an industry are often so alike internally. There might have been strong reasons in the beginning to do so when the competitive strategies might have been similar. But as companies move from one strategy to the next, often the resource allocation patterns fail to respond to the strategic changes. So, different companies following different strategies may have similar resource allocation process and identical resource configurations. This does not really make sense and tends to hurt the capability to develop competitive advantage especially when differentiation strategies might be followed.

The CEO has a major role to play in managing the process of resource allocation. Strategic management, based on a participative mode, and communication of strategic plan to all executives creates a congenial environment where the resource allocation decisions may be taken amicably.

Having done the resource allocation, the strategist has to move now to another major aspect of strategy implementation, i.e. structural implementation. The next chapter deals with the various aspects of structural implementation.

Summary by Learning Objectives

This chapter is the first of the four chapters in this part of the book. It lays down the framework within which the implementation of strategies can be done.

The main points covered in this chapter are as follows:

LO 1 *Describe the nature of, and barriers to, strategy implementation*

- Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. The five characteristics of strategy implementation explained are: action orientation, comprehensive in scope, demanding varied skills, wide-ranging involvement, and integrated process.

LO 2 *Identify the barriers to strategy implementation*

- Strategy implementation is much more difficult than strategy formulation. There are several barriers to implementing strategies and many means to overcome these barriers. Two major suggestions for effective strategy implementation are: adopting a clear model of strategy implementation and effective management of change in complex situations.

LO 3 *Discuss the interrelationship between formulation and implementation of strategies*

- Formulation and implementation of strategies operate in an iterative manner where both feed upon each other in a two-way relationship. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction. Strategies that are formulated do not get implemented in the intended way.

LO 4 *Explain the three themes that constitute model of strategy implementation*

- The model of strategy implementation used in this book is based on three major themes of activating strategies, managing change, and achieving effectiveness.
- The activation of strategies deals with the putting in action of strategies. Strategies lead to several plans. Each plan leads to several programmes. Each programme results in numerous projects. Projects are supported by budgets prepared through the resource allocation process. The administrative mechanisms of policies, procedures, rules and regulations support the working of the organisation while it implements the projects, programmes, plans, and strategies.
- Strategy implementation almost always necessitates change. Managing change therefore is an essential requirement for the success of strategy implementation. We discussed three major issues in management of change: degree of change, timing of change, and activity areas of change.
- Organisational effectiveness means the degree to which an organisation is able to achieve its objectives. It is the end that we seek to attain through implementation of strategies.

LO 5 *Review the role of project management in strategy implementation*

- Project management is the key enabler of strategy implementation within organisations. Projects are not something that are an appendage to strategy implementation but need to be a significant part of the overall strategy supported by the right approach, processes, and tools and techniques. Organisations need to ensure that projects are executed fully in line with the strategies they support.

LO 6 *Analyse the role of regulatory mechanisms in India in procedural implementation*

- Any organisation which is planning to implement strategies must be aware of the procedural framework within which the plans, programmes, and projects have to be approved by the government at the central, state, and local levels.
- The regulatory elements reviewed in the chapter are as follows:
  1. Formation of a company
  2. Procedures for industrial assistance
  3. Facilitation for fair competition
  4. Procedures for foreign collaboration
  5. Procedures for foreign trade
  6. Protection of intellectual property
  7. Requirements of labour legislation
  8. Requirements for consumer protection
  9. Requirements for investor protection
  10. Requirements for corporate sustainability
  11. Requirements for availing incentives and facilities

LO 7 *Recognise the importance of aligning resource allocation to strategy*

- A major task of top managers is resource allocation. Resource allocation deals with the procurement, commitment, and distribution of financial, human, informational, and physical resources to strategic tasks for the achievement of organisational objectives. Strategy guides managers in making decisions about resource allocation.
- In aligning resource allocation to strategy the basic challenge before the strategists is how to allocate scarce resources to competitive strategic tasks that lead to the accomplishment of organisational objectives and realisation of strategic intent.
- We explained strategic budgeting that is an iterative form of strategic decision making between different levels of management.
- There are four important factors that affect resource allocation. These are the objectives of the organisation, preference of dominant strategists, internal politics, and external influences.
- The difficulties in resource allocation process arises due to scarcity of resources, restrictions on generating resources for newer units and those with a greater potential for growth, and overstatement of needs. It is pointed out that the CEO plays major role in resource allocation and strategic management, based on a participative mode, and communication of strategic plan to all executives creates a congenial environment where the resource allocation decisions may be taken amicably.

The next major aspect of strategy implementation is that of structural implementation and is dealt with in Chapter 11.

EXERCISE

Short-answer Questions

1. List the five characteristics of strategy implementation. **(LO 1)**
2. Enumerate the major barriers to strategy implementation. **(LO 1)**
3. Suggest the means to overcome the barriers to strategy implementation. **(LO 1)**
4. How does the formulation affect the implementation of strategies? **(LO 2)**
5. How is the formulation of strategies affected by implementation factors? **(LO 2)**
6. Why do formulated strategies do not get implemented as intended? **(LO 1, LO 2)**
7. How does the pyramid of strategy activation operate? **(LO 1)**
8. How is strategic management all about achieving organisational effectiveness? **(LO 3)**
9. What role does project management play in strategy implementation? **(LO 4)**
10. What procedural implementation issues are to be considered if a company wishes to seek foreign collaboration? **(LO 5)**
11. How would SEBI requirements affect the resources availability for business firms? **(LO 5, LO 6)**
12. Why are import and export requirements important for strategy implementation? **(LO 5)**
13. Do all types of industries require a consideration of environmental protection and pollution control requirements? **(LO 5)**
14. The implementation of strategies often results in reduction of labour. How should companies deal with the situation? **(LO 5)**
15. How are the patenting and trademarks requirements likely to affect the functional strategies in the area of marketing? **(LO 5)**
16. How can the availability of incentives and other facilities affect strategy implementation? **(LO 5)**
17. How can Indian organisations deal with the myriad elements in regulatory framework while implementing their strategies? **(LO 5)**
18. What does resource allocation deal with? **(LO 6)**
19. How can a strategic budget be prepared? **(LO 6)**
20. Objectives affect resource allocation. Can resource availability affect objective setting? How? **(LO 2, LO 6)**
21. How can the preference of dominant strategists positively affect the process of resource allocation? Negatively? **(LO 6)**
22. Point out how external influences may prove to be beneficial for resource allocation? Harmful? **(LO 6)**
23. Are human 'resources' scarce in India? What does it imply for resource allocation within business firms? **(LO 6)**
24. How can the strategists resolve the political problems arising in resource allocation? **(LO 6)**

Assurance of Learning Exercises

1. Describe the characteristics of strategy implementation to highlight its essential nature. **(LO 1)**
2. Describe the major barriers to strategy implementation and discuss the means available to overcome such barriers. **(LO 1)**
3. Discuss the nature of interrelationship that exists between the formulation and implementation of strategies. Provide examples of such an interrelationship. **(LO 2)**
4. Discuss the three major themes in strategy implementation. **(LO 3)**
5. Do you agree with statement: 'Strategy implementation is essentially management of change'? Why? **(LO 3)**
6. Discuss the major issues in managing change in strategy implementation. **(LO 3)**
7. Assuming that an organisation (say, an educational institution) is interested in implementing certain strategies, what plans and programme could it undertake? Which projects could be taken up for implementation? How will the process of strategy implementation work? **(LO 1, LO 3, LO 4)**
8. Describe the major elements of the government regulatory framework within which Indian companies work. What are the implications of each of these elements for strategy implementation? **(LO 5)**
9. Despite liberalisation Indian economy still remains largely regulated. What implications does this fact have for companies going in for strategy implementation? **(LO 5)**
10. Requirements such as patenting and labour legislation are creating difficulties for companies in India implementing strategies. What could these difficulties be? How can these be overcome? **(LO 5)**
11. Consider the case of any Indian company. What steps should it undertake for resource allocation for implementing its strategies? What difficulties could be expected in doing so and how can they be dealt with? **(LO 6)**
12. Describe the manner in which an organisation can align its resource allocation with its strategies. **(LO 6)**

Review Case

RIGHT CHEMISTRY BETWEEN FORMULATION AND IMPLEMENTATION AT DEEPAK NITRITE*

The origins of Deepak Nitrite—the flagship company of the Deepak group of industries—date back to 1970 when Chimanlal K. Mehta, an entrepreneur, sensing an opportunity in India's drive towards self-sufficiency and import substitution and relying on trading and manufacturing experience, ventured into the chemicals industry. The Companyoriginally incorporated as a private company converted into a public limited company in 1971. The company's registered office is at Vadodara and corporate office is at Pune with manufacturing plants in Andhra Pradesh, Gujarat, and Maharashtra. Its product portfolio is organised into three strategic business units of bulk and commodity chemicals, fine and specialty chemicals, and optical brightening agents. Net sales for year ending March, 2014 are about Rs. 1270 crore and net profit is Rs. 38 crore. Exports constitute nearly 40 per cent of the sales.

Over the years, Deepak Nitrite has grown impressively through a judicious use of integration, related diversification, and internationalisation strategies using the means of acquisition and restructuring. For its bulk commodities and chemicals, where price is a determining factor, it adopts a cost leadership business strategy. For fine and specialty chemicals a differentiation strategy is deemed appropriate. Fluorescent whitening agent seems to be a prospective targeted at end-product industries such as paper and textiles and promising a large market share in the future. Future plans are to accelerate growth by entering into new businesses and expanding to new export markets.

In 1983, Deepak Nitrite adopted a horizontal integration strategy by using foreign collaboration to start commercial production of ammonia. In 1989, the group employed ammonia-based forward integration and also diversified into the chemicals related area of methanol. In 1992, came the commercial production of low-density ammonium nitrate, nitro phosphate, and nitric acid resulting in a multiproduct portfolio consisting of organic, inorganic, fine, and specialty chemicals. In 1994, a new hydrogenation plant was set up. A memorandum of agreement was signed in 2006 with National Chemical Laboratory for research collaboration. In 2014, the company announced investing Rs. 1,200 crore for setting up phenol and acetone manufacturing plant in Gujarat. Continual debottlenecking and improvements .in products and processes is a constant theme of operational effectiveness at the company.

Deepak Nitrite has made tremendous progress over the years and has posted impressive financial results as well as excellent export performance. 'It (the growth of the company) was born out of a process of deep thinking, strategy and planning,' said managing director, Deepak Mehta, who claimed that planned strategy has led to growth. Environmental scanning led to foreseeing the threats coming from a dismantled duty regime. Anticipating this, the company went about implementing strategies that would convert these threats into opportunities. The strategic approach was to build on its strengths in niche areas of the chemicals market, leverage strong R & D and robust lab to production skills, bring the strengths up to global levels, and work towards a leadership position. This approach seems to have endured at the company as the annual report of 2013–14 reiterates its focussed strategies serving niche markets backed by chemistry-driven expertise and R & D for process improvement and enhancement aided by timely launch of new products. Thus, calibrated change—gradual in nature—seems to be the method adopted by the company while retaining the basic elements of its focussed approach.

The success of Deepak Nitrite could be attributed to its focused strategy implementation capabilities. A series of plans, programmes, and project have been initiated and implemented over the years in alignment with its corporate and business strategies. For instance, it has worked on a number of R&D projects over the years to develop its skills to swiftly transfer products from the labs through production to the markets. It has effectively developed differentiating capabilities by planning and implementing projects for handling bulk products to handling batch products transforming from a commodity supplier to a value-added, branded product supplier with customisation skills. Projects in supply chain management have helped the company extending its ability to source its own raw material to tracking customers' delivery and inventory scheduling. Cost control has been attempted through wider sourcing including international vendors and investing in energy-saving equipment.

In the course of strategy implementation, Deepak Nitrite has to deal with a host of government agencies for procedural implementation. For example, raising finance has taken it to SEBI. A continual interaction takes place with export and import regulatory authorities. For instance, anti-dumping duties have been levied on the company for sourcing cheap materials from China. Being in the chemical processing industry, the company is under the scrutiny of environmental protection agencies. It has been a signatory to the 'Responsible Care' initiative of the global chemical industry. It has also achieved ISO 14001 certification. Sustainability at Deepak Nitrite is evident in its being a signatory of 'Responsible Care' and corporate social responsibility activities in the villages of Gujarat through a trust called Deepak Foundation. Dealing with explosives, the company has to seek licenses from the Department of Explosives, Industrial Safety and Health Departments and State Pollution Boards of Gujarat and Maharashtra. Apart from these, are the regulatory requirements dealing with taxation purposes. Resource generation has been through raising money in the capital markets on the basis of its good reputation, internal accruals, loans from commercial banks and financial institutions and sale of factory land, issuing commercial papers, and plans to issue rights shares.[42]

The role of effective implementation is evident in the approach of Deepak Nitrite as explicitly acknowledged in its annual report that mentions that 'winning strategies involve setting goals and implementing them through concerted action, while mobilising the required resources'. Deepak Nitrite offers a fine example of the triumph of strategic management as a planned process to achieve desired objectives.[43]

Questions

1. Picking up data from the case, demonstrate how formulation and implementation of strategy are interdependent. **(LO 2)**
2. Identify and discuss briefly the three themes of strategy implementation of activating strategies, managing change, and achieving effectiveness in the case of Deepak Nitrite. **(LO 3)**
3. Point out instances from the case which illustrates the role of regulatory mechanisms in procedural implementation at Deepak Nitrite. Could you add more elements that you think would be relevant to the company? **(LO 5)**

Notes and References

1. World Bank data at *http://data.worldbank.org/country/india*; JEEViKA implementation results at World Bank site at *http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/SAR/2014/12/03/090224b0828da308/2_0/Rendered/PDF/India000Bihar00Report000Sequence015.pdf*; 'Press Note on Poverty Estimates' Planning Commission, Government of India at *http://planningcommission.nic.in/news/pre_pov2307.pdf*; Website of Bihar Rural Livelihood Promotion Society (BRLPS) at *http://brlp.in/index.php*; *BRLPS Annual Report 2013-2014* at *http://brlp.in/admin/Files/Annual%20Report%2013-14.pdf*; N. Sethi, 'India's Poor May Shrink 75% by New World Bank Formula' *Business Standard* (4 August, 2014). All websites retrieved 20 December, 2014.
2. Y. Li, S. Guohui, and M. J. Eppler, 'Making Strategy Work: A Literature Review on the Factors Influencing Strategy Implementation,' ICA Working Paper, 2 (2008) available at: *http://www.knowledge-communication.org/pdf/making-strategy-work.pdf*. Retrieved 19 October, 2014.
3. A.A. Thompson Jr. and A.J. Stickland III, *Strategic Management: Concepts and Cases*, 13th ed. (New York: McGraw-Hill Irwin, 2003).
4. Many research studies are available that deal with the barriers to strategy implementation and suggest how to counter those barriers. For instance, see M.

Beer, R.A. Eisentat, and B. Spector, 'Why Change Programs Don't Produce Change,'*Harvard Business Review*(November-December, 1990): 158–66; E. Sandelands, 'All Talk and No Action? Perish the Thought,' *Management Decision,* 32, no. 5 (1994): 10–11; M. Beer and R.A. Eisenstat, 'The Silent Killers of Strategy Implementation and Learning,' *Sloan Management Review,* 41, no. 4(2000): 29–40; J.F.C. Candido and S.P. Santos, 'Strategy Implementation: What is the Failure Rate?' *CASEE Discussion Paper No. 18*, 2008, Universidadedo Algarve, Faro.

5. Deloitte and Touche, *Building Global Competitiveness: Imperatives for the 21st Century: A Research Report* (London: Deloitte and Touche, 1992).
6. A.M. Shah, 'The Foundations of Successful Strategy Implementation: Overcoming the Obstacles,' *Global Business Review,* 6 (2005): 294–302.
7. L.G. Hrebiniak, 'Obstacles to Strategy Implementation,'*Organizational Dynamics,* 35, no. 1, (2006): 12–31.
8. K. Andrews, *The Concept of Corporate Strategy* (Bombay: Taraporevala, 1971): 179.
9. H. Mintzberg, 'Pattern in Strategy Formation,' *Management Science*, 24, no. 9 (May, 1978): 934–48.
10. A. Kazmi, 'A Proposed Framework for Strategy Implementation in the Indian Context,' *Management Decision,* 46, no. 10 (2008): 1564–81.
11. Check out references to the management of change literature. For example, the management classic by J.B. Quinn, 'Managing Strategic Change,'*Sloan Management Review,* 21, no. 4 (Summer, 1980): 3–20. A contemporary treatment is available in C.E. Helfat, *et al.*: *Dynamic Capabilities: Understanding Strategic Change in Organizations* (Malden, MA: Blackwell Publishing, 2007). A basic understanding can be had from any standard management text, for instance, D. Hellriegel, S.E. Jackson and J.W. Slocum, Jr. *Management: A Competency-based Approach,* 10th ed. (Mason, Ohio: South-Western, 2005) or a text on the subject such as B. Burnes, *Managing Change: A Strategic Approach to Organizational Dynamics* (London: Prentice Hall, 2011) and E. Cameron and M. Green, *Making Sense of Change Management: A Complete Guide to the Models Tools and Techniques of Organizational Change,* 3rd ed. (London: Kogan Page, 2012).
12. R.L. Daft, *Organization Theory and Design* (Mason, Ohio: Thomson South-Western, 2004): 66–73, for instance, provides a basic understanding of various issues in organizational effectiveness. More details are available in the vast literature on organizational effectiveness some of the major contributors being M.V. Russo, P.A. Fouts, C. Ostroff, N. Schmitt, K. Cameron, R.E. Quinn, J. Rohrbaugh, *et al.* For an Indian perspective see R. Awasthy and R. K. Gupta, 'How do Indian Executives Define Organisational Effectiveness,' *Indian Journal of Industrial Relations,* 39, no. 3 (2004): 281–97.
13. Definitions of project and project management taken from *http://www.pmi.org/About-Us/About-Us-What-is-Project-Management.aspx.*. See: *A Guide to the Project Management Body of Knowledge* (PMBOK Guide), 5th ed. (Webster, N.C.: Project Management Institute, 2013). PMI India website is at *http://www.pmi.org.in/*. Websites retrieved 21 October, 2014.
14. S. Srivannaboonand D.Z. Milosevic, 'A Two-Way Influence between Business Strategy and Project Management,'*International Journal of Project Management,* 24, no. 6 (2006): 493–505. Also see: A. Longman and J. Mullins, 'Project Management: Key Tool for Implementing Strategy,' *Journal of Business Strategy,* 25, no. 5 (2004): 54–60; and M. Levinson, 'Business Strategy: The 'best determinant' of Project Success' available at *http://www.cio.com/article/2422740/project-management/business-strategy--the--best-determinant--of-project-success.html.* Retrieved 24 October, 2014.
15. A. Haucand J. Kovac, 'Project Management in Strategy Implementation: Experiences in Slovenia,' *International Journal of Project Management,* 18, no. 1 (2000): 61–67.
16. S.C. Beardsley, D. Bugrov, and L. Enriquez, 'The Role of Regulation in Strategy,' *The McKinsey Quarterly*, no. 4 (2005).
17. Regulatory mechanisms could be checked out, for instance, from the official websites of Indian government such as the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry at *http://dipp.nic.in/English/default.aspx* and Business Portal of India at *http://business.gov.in/default.php*. Information pertaining to foreign investment or investment by overseas Indians is available at India Brand Equity Foundation at *www.ibef.org* and Overseas Indian Facilitation Centre at *http://www.oifc.in/*. All websites retrieved 22 October, 2014.
18. See the website of Ministry of Corporate Affairs, Government of India for Companies Act, 2013 here *http://www.mca.gov.in/MinistryV2/companiesact.html*. For regular updates on the implementation of

the Companies Act, 2013 see *http://www.companies-act.in/* Both websites retrieved 22 October, 2014.

19. For details of industrial assistance procedures see the website of Department of Industrial Policy & Promotion, Government of India at *http://dipp.nic.in/English/Default.aspx*. Retrieved 22 October, 2014.
20. For details of Competition Commission of India see its website at *http://www.cci.gov.in/index.php?option=com_content&task=view&id=12*. Retrieved 23 October, 2014.
21. See the Consolidated FDI Policy, 2014 available at *http://dipp.nic.in/English/Policies/FDI_Circular_2014.pdf* for details of foreign direct investments into India. Retrieved 23 October, 2014.
22. For details of foreign trade requirements in India see Directorate General of Foreign Trade site at *http://dgft.gov.in*; Foreign Trade (Development and Regulation) Act, 1992 at *http://dgft.gov.in/exim/2000/ftdr2010.htm*; Foreign Trade (Regulation) Rules, 1993 at *http://dgft.gov.in/exim/2000/download/Appe&ANF/38C.pdf;* Foreign Trade Policy at *http://dgft.gov.in/exim/2000/policy/ftp-plcontent-1011.htm*. All websites retrieved 23 October, 2014.
23. For patenting and trademark requirements in India see the websites of Controller General of Patents, Designs and Trademarks at *http://www.ipindia.nic.in/* and Registrar of Trademarks at *http://www.ipindia.nic.in/tmr_new/default.htm*. Websites retrieved 23 October, 2014.
24. For information on copyrights management in India see the website of Copyrights Office of the Government of India at *http://copyright.gov.in/Default.aspx*. Retrieved 23 October, 2014.
25. See the website of the Ministry of Labour and Employment, Government of India for information on acts and rules related to labour in India: *http://labour.nic.in/content/#*. Retrieved 23 October, 2014.
26. For information on consumer protection in India see the website of the Ministry of Consumer Affairs, Food and Public Distribution at *http://consumeraffairs.nic.in/consumer/?q=node/494*. Retrieved 24 October, 2014.
27. For information on Securities and Exchange Board of India see its website here: *http://www.sebi.gov.in/sebiweb/stpages/about_sebi.jsp*. Retrieved 23 October, 2014.
28. For a range of environmental laws in India see the website of C.P.R Environmental Education Centre at *http://www.environmentallawsofindia.com/about-us.html*. Retrieved 24 October, 2014.
29. The website of the Ministry of Environment and Forests, Government of India is at: *http://envfor.nic.in/legis/legis.html#* As an illustration of the state-level institutions, see Maharashtra Pollution Control Board's website at *http://mpcb.gov.in/index.php*. Retrieved 24 October, 2014.
30. See the notified rules for Companies (Corporate Social Responsibility Policy) Rules 2014 under Companies Act, 2013 here: *http://www.mca.gov.in/Ministry/pdf/CompaniesActNotification2_2014.pdf*. Retrieved 24 October, 2014.
31. Securities and Exchange Board of India's circular on business responsibility reporting, August 13, 2012 at *http://www.sebi.gov.in/cms/sebi_data/attachdocs/1344915990072.pdf*. Retrieved 25 October, 2014.
32. Information related to benefits, incentives and subsidies is available on websites of concerned ministries and government departments. For instance, for small industries see *http://smallb.in/*; or industrial development in the North-Eastern states of India see *http://www.nedfi.com/*. Retrieved 24 October, 2014.
33. Lobbying is illegal in India yet persists in so many informal forms. Read a legal view on lobbying here *http://www.indialawjournal.com/volume4/issue_3/article_by_diljeet_titus.html*. There are chances that lobbying may attain legal status in near future as there is discussion in the media; see, for instance, these articles: *http://archive.indianexpress.com/news/when-lobbying-is-legal/1048686/* and *http://www.livemint.com/Opinion/DWZTZTfYOScT8inQuPCHAO/A-case-for-lobbying-in-India.html*. Retrieved 24 October, 2014.
34. F.R. David, *Strategic Management: Concepts and Cases* (New Jersey: Pearson Education, 2007): 269.
35. W.F. Glueck and L.R. Jauch, *Business Policy and Strategic Management*, 4th ed. (New York: McGraw-Hill, 1984): 315–18.
36. Glueck and Jauch, *op. cit*, p.109; and S.K. Bhattacharya and N. Venkataraman, *Managing Business Enterprises* (New Delhi: Vikas Publishing House, 1983): 101–06.
37. M.A. Carpenter and Wm. G. Sanders, *Strategic Management: A dynamic perspective*(New Jersey: Pearson Education, 2007): 323–24.
38. Examples of choices taken from: R.K. Jain, 'Dilemmas in Setting Priorities,' *Express Healthcare Management* (16-31 July, 2004).

39. F.S. Hills and T.A. Mahoney, 'University Budgets and Organisational Decision Making,' *Administrative Science Quarterly,* 23, (September, 1970): 454–65.
40. P. Chandra, *Financial Management - Theory and Practice*, 1st revd. edn. (New Delhi: Tata McGraw-Hill, 1987): 456–57.
41. P. Drucker, 'Managing for Business Effectiveness,' *Harvard Business Review* (May-June 1963).
42. U. Somayaji, 'Exporting to a Plan: Deepak Nitrite Exports Cross Rs. 100 crore' *domain-b.com* 11 May, 2004 *http://www.domain-b.com/companies/companies_d/deepak_nitrite/20040511_exports.html* Retrieved 4 October, 2007; *Letter of offer* March 2006 filed by Deepak Nitrite with Securities and Exchange Board of India available at *http://www.sebi.gov.in/dp/deepak-final.pdf*. Retrieved 4 October, 2007; 'Deepak Nitrite: Targets Move Up the Value Chain'*Chemical Week*, 168, no.20 (14 June, 2006): 24; and the Company website at *http://www.deepaknitrite.com/*. Retrieved 4 October, 2007.
43. Company website at *http://deepaknitrite.com/; Annual Report 2013-2014 at http://deepaknitrite.com/pdf/results/DNL%20AR_2013-14.pdf;* 'Deepak Nitrite: Targets Move Up the Value Chain,'*Chemical Week,* 168, no. 20 (14 June, 2006): 24; 'Deepak Nitrite Plans Rights Issue to Fund Expansion, Pare Debt,' at *http://www.livemint.com/Companies/Pk5zc-qQxaOwW1e7FNYlzPN/Deepak-Nitrite-plans-rights-issue-to-fund-expansion-pare-de.html?utm_source=copy*; 'Deepak Nitrite to Set Up Phenol and Acetone Plant at Dahej,' *Business Standard* (11 August, 2014). All websites retrieved 21 December, 2014.

11

CHAPTER

Structural Implementation

Learning Objectives

After reading this chapter you should be able to:

LO 1 Interpret organisation structure from the perspective of strategy implementation
LO 2 Describe different forms of structures devised to implement strategies
LO 3 Review the subject matter of organisation design and organisational change
LO 4 Relate changes in structures to changes in strategy
LO 5 Identify the structures used for implementing corporate and business strategies
LO 6 Recognise the role of organisational systems in implementing strategies

Chapter Outline

Preview Case

STRATEGIES, STRUCTURE, AND SYSTEMS AT NTPC LIMITED*

National Thermal Power Corporation (NTPC), established in 1975, is a public sector company set up to accelerate power development in India. It is one of *navaratnas* (nine gems) in the public sector in India. It is the largest thermal power generating company in India at present and among the Forbes Global 2000 largest companies in the world.

The NTPC's vision is to be: 'To be the worlde: largest and best power producer, powering Indiaest and b'. Its mission is stated as: 'Develop and provide reliable power, related products and services at competitive prices, integrating multiple energy sources with innovative and eco-friendly technologies and contribute to society'. The core business of NTPC is engineering, construction, and operation of power generation plants. The integrated business model of NTPC encompasses the entire value chain starting from coalmining, equipment manufacturing, power generation, power distribution, power trading to consultancy.

The NTPC's total installed capacity of 43,128 MW resides in 17 coal-based and 7 gas-based power generating stations, 7 renewable energy projects and 7 joint ventures that are coal-based. There are about 25,000 employees. Its Corporate Plan 2010–32 aims at diversified growth through a fuel mix of coal, gas, nuclear energy, renewable energy, and hydropower. By 2032, it plans to generate 1, 28,000 MW of power of which 28 per cent of power is to be generated from carbon-free fuel sources. The major challenges before the company are: continual upgradation of power technology, ensuring uninterrupted fuel supply, acquisition of land for projects, timely execution of projects, and tackling environmental issues.

The corporate and business strategies of NTPC focus on expansion through integration; diversification into coal mining, power trading and manufacturing of power equipment; and internationalisation through joint ventures, acquisition, and strategic alliances. Integration strategies mean moving backward to coal mining and forward to power trading and distribution. Internationalisation involves global strategy of leveraging on its core business of engineering, construction, and operation of power generation plants and their maintenance around the world. Long-term plans are aimed at diversifying generation mix to include nuclear power, continuing integrating along the power value chain, and intensifying internationalisation efforts.

The NTPC has a strategic management group that is involved in deliberating on the key strategic issues continually and providing direction. The group includes the chairman and managing director (MD), all functional directors, all regional executive directors, executive directors heading various strategic functions and other heads of strategic functions. A business intelligence group in the corporate planning division of NTPC keeps track of changes in the markets that may impact its business.

In 2003, NTPC, based on recommendations of the consulting firm, AT Kearney, embarked on organisational transformation exercise named Project *Disha* (direction). Among the 14 initiatives recommended were included structural changes, performance management system, rewards and incentives system, and information technology (IT) strategy.

The present organisation structure of NTPC is hybrid of functional and geographic forms and plant-level units of structure. The chairman and MD heads NTPC with directors looking after the functions of commercial, operations, technical, human resource (HR), projects and finance. Regional executive directors, based at regional headquarters, oversee the region-based divisions of north, south, east, west, and national capital region (NCR) that supervise plant-level operations. The corporate headquarter has some staff functions such as corporate planning, legal, and secretarial departments.

The NTPC had opted for Strategic Advantages Profile (SAP) as its Enterprise Resource Planning (ERP) solution under its project named *Lakshya* (aim) that aimed at efficiency, flexibility of functioning, transparency, and quicker response to internal and external stakeholders. The SAP solution is expected to help NTPC achieve faster exchange of information, improved productivity and reduction of costs, better data consistency, knowledge sharing and unification of planning and budgeting process. The ERP solution includes the core business processes and employee self-service functionality besides e-procurement, knowledge management, business intelligence, document management and workflow. The systems are managed by in-house staff from process and technical groups. Its' main data centre with centralised server facility to cater to the needs of entire company located at NOIDA. There is a disaster recovery centre at Hyderabad as a full back up for real time changeover in case of any emergency.

The NTPC has a memorandum of understanding (MoU) with the Government of India. The MoU system constitutes an over arching control system in public sector enterprises and so is the case with NTPC. The 2014–15 MoU envisages developing and providing reliable power and related products at competitive prices, integrating multiple energy sources with innovative eco-friendly technologies and contributing to society. At the level of the company, there are two board-level committees to oversee audit and management controls functions. The operational performance evaluation of NTPC basically relates to the reliability of power supply and economics of power generation. The typical performance metrics include capacity utilisation, plant load factor, power generation per employee, availability factor, equipment downtime, and energy conservation. The Corporation is a part of the Ministry of Power that signs the Results-Framework Document with the government committing to a set of vision, mission, objectives and functions. In the case of Ministry of Power these typically deal with providing necessary support and enabling policy framework for integrated development of power infrastructure, efficient management of power generation, transmission, and distribution fulfilling the requirements and aspirations of all,including economically weaker sections for quality power at a reasonable price.

It has developed and adopted self-designed 'NTPC Business Excellence Model' that has been implemented at the business units to identify organisational strengths, opportunities for improvement,issues of concern, and best practices. There is also project monitoring centre for facilitating fast-track project implementation. It oversees a three-tiered integrated project management control system that integrates engineering management, contract management and construction management control centres. There is an elaborate system of internal, cost, and statutory audits as is the case with public sector enterprises in India. The Corporation is in the process of implementing corporate performance measure and dashboard initiative to enhance overall strategic focus and speed.

Besides, these NTPC has a comprehensive system of rewards and incentives that include areas such as industrial relations, productivity, safety, and environment. Directors and managers are provided benefits under the performance-linked incentives scheme. Meritorious employees are awarded the star of the month and employee of the year awards. The company provides higher education support to employees desirous of enhancing their qualifications. Regarding compensation the company has to adopt the norms set for public sector enterprises.

The NTPC has faced challenges and criticism on account of several reasons in its history. A common criticism is against delays in project schedules, failures in capacity addition, failure to rehabilitate displaced persons owing to its projects, and allegations by non-governmental organizations (NGOs) of causing social and environmental havoc at its sites such as Singrauli. It is going ahead with 22,000 MW of power projects under construction, 1,10,000 in the pipeline and is looking for acquisitions worth Rs. 5,000 crore to 7,000 crore.[1]

This chapter on strategy implementation will deal with structural implementation—the vast area of adapting structures and systems in an organisation to the requirements of strategy to be implemented. The preview case on NTPC demonstrates the different aspects of implementing through structure and systems. The National Thermal Power Corporation, being a prime public sector enterprise, engaged in the business of power generation has many ambitious strategies that it has implemented in the past and plans to do in future. It has an elaborate structure as well as a variety of systems. Note how NTPC manages its information, control and reward systems to facilitate strategy implementation. This chapter will deal with all these issues and we start with discussing the foundations of structural implementation.

11.1 FOUNDATIONS OF STRUCTURAL IMPLEMENTATION **LO 1**

We usually conceive of the organisation structure as a chart consisting of interconnected boxes in which the name of position or designation of personnel and, sometimes the name of the person occupying the position, is written in a hierarchical order along with the depiction of relationship that exists between various positions. To a strategist, an organisation structure is not just a chart but much more. Let us try to understand structure from a strategic perspective. We will do this by looking at the design of structure by two ways: organic evolution in response to emerging circumstances and by deliberate design. We will also look at evolution of structure in response to the stages of development of organisation.

Structure from Strategy Perspective

From the strategy implementation standpoint, an organisation structure is the arrangement of tasks and sub-tasks required to implement a strategy. The diagrammatical representation of structure could be an organisation chart but a chart shows only the 'skeleton'. The 'flesh and blood' that brings to life an organisation is the several administrative mechanisms, such as control system, that support the structure. All these cannot be depicted on a chart. But a strategist has to grapple with the complexities of creating the structure, making it work, redesigning when required, and implementing changes that will keep the structure relevant to the needs of the strategies that have to be implemented.

An organisational structure could either evolve as a continual process of adaptation to emerging circumstances or be designed deliberately. Let us first understand how the evolution of structure could take place. For developing such an understanding it is useful to consider the case of a new organisation which has decided to achieve a set of objectives through the implementation of certain strategies. In the next two paragraphs, we relate the 'story' of how structural mechanisms evolve.

A strategic plan lays down the formulated strategies. These strategies have to be implemented to achieve the objectives. The implementation of strategies would require the performance of tasks. Some of these tasks are related to the formulation and implementation of programmes and projects. We dealt with these tasks in the previous chapter on activating strategies. Having laid the foundations of an organisation, the strategists have now to devote their attention to the tasks that would have to be performed on a continuing basis for the implementation of strategies. It would be practically impossible to list all such tasks so the strategists would attempt to enumerate the major tasks. These major tasks would have to be grouped, for instance, on the basis of commonality of the skills required to perform them or the activities in the value chain. Having grouped the major tasks, each category of such tasks will have to be again segregated on the basis of the ability of an individual to perform a unit of tasks. This is the procedure through which organisational units such as departments are created and hierarchies defined. This is the subject matter of organisational design.

The total responsibility to implement strategies has to be subdivided and distributed to different organisational units. The authority to discharge the responsibilities will also have to be delegated if the tasks have to be performed. To ensure that different organisational units do not work at cross-purpose, coordination will have to be ensured through communication. The performance will have to be appraised and controlled so that the tasks are performed in a sequence and according to a schedule. Desirable behaviour to perform these tasks will have to be encouraged and undesirable behaviour curbed. For this to take place, rewards and penalties will have to be used. Since the performance of tasks cannot be left to chance, creation of motivation will have to be facilitated so that organisational effort is directed towards a common purpose. Further, individuals will have to be continually trained and developed so that objective-achieving capability is created and sustained.

In the manner described earlier, the new organisation that has been exemplified will come into being and start functioning. All the activities mentioned will now have to be performed on a continuing basis.

We can now derive the different structural mechanisms on the basis of the earlier example. These are summarised as follows:

1. Defining the major tasks required to implement a strategy
2. Grouping tasks on the basis of common skill requirements or activities in value chain
3. Subdivision of responsibility and delegation of authority to perform tasks
4. Coordination of divided responsibility
5. Design and administration for systems for coordination and communication

The first four of these mechanisms will lead to the creation of the structure. The last mechanism is devised to hold and sustain the structure. Note that structural mechanisms alone will not fulfil the requirements of strategy implementation. Organisational structure is just the ‘hardware’ while the organisational systems constitute the ‘software’ of structural implementation. In this chapter, we will discuss structure and systems.

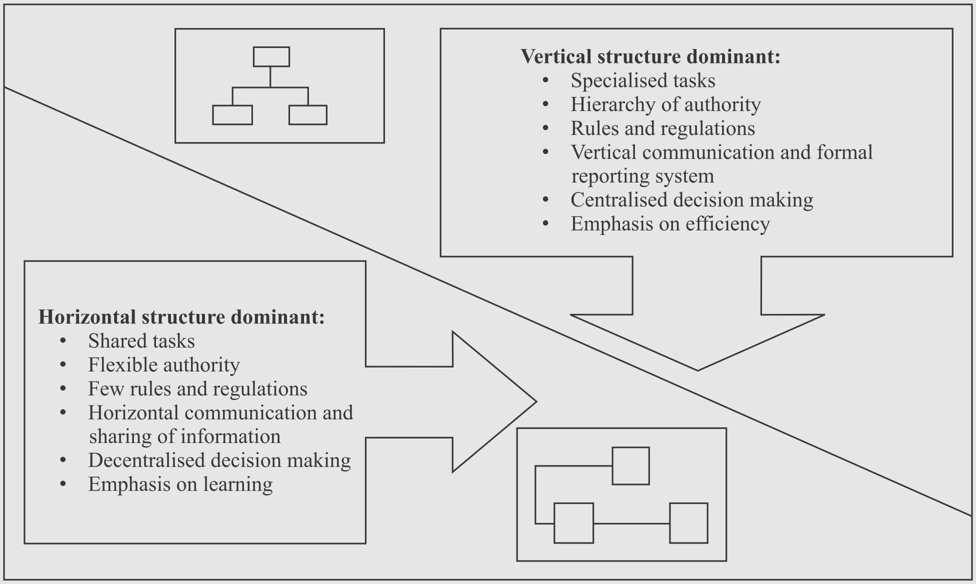
In contrast to the evolution of structure, the deliberate design of organisation structure requires specifying three key components as follows:

1. Identifying formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers.
2. Specifying the grouping of individuals into departments and of the departments into the whole organisation.
3. Designing of systems to ensure effective communication, coordination, and integration of efforts across departments.[2]

As you will note, there are similarities in the two approaches of evolution and deliberate design of structure. The first two components constitute the structural framework which is the *vertical structure* created through the process of differentiation that involves division of labour and specialisation. The third component refers to the pattern of interactions among members of the organisation and is the *horizontal structure* created through the process of integration that involves cross-functional information systems and teamwork. Exhibit 11.1 shows these structures. Note that the vertical structure is designed primarily for exercising control by superiors over subordinates’ work in the organisation. The horizontal structure is designed for coordination and collaboration of work among peers in the organisation.

Vertical structures lead to many layers of management, thick boundaries between layers preventing smooth communication, tight controls, rigidity, centralised decision-making, and too many specific ways of doing things thus stifling creativity. On the positive side, these structures are well-suited for efficient and tightly-controlled operations. Such structures are also called *tall structures*. These forms of structures are best suited for organisations making standardised products and services in large volumes through mass production systems with established technologies serving a wide market having customers seeking undifferentiated items for consumption. Examples of organisations that would likely have vertical structures are large manufacturing companies producing products for mass markets and government bureaucracies serving multitudes of citizens.

Exhibit 11.1 Vertical and Horizontal Structures



Source: Adapted from R.L. Daft, *Understanding the Theory and Design of Organizations,* 10th ed. (Stamford, CT: South-Western, Cengage Learning, 2010): 58.

Horizontal structures are lean and mean organisations with few layers of management, liberal exchange of information between different layers and across departments, flexible systems, delegation of authority leading to decentralised decision making, and a climate conducive to innovation. On the negative side, such structures often result in loss of control and high costs of coordination, and require highly qualified employees with multiple skills. Such structures are also called *flat structures*. These forms of structures are suited to organisations that make differentiated products and services through batch production systems with advanced technologies serving niche markets with customers seeking premium items for consumption. Examples of organisations that would likely have horizontal structures are speciality manufacturers, medium- or small-sized service organisations and non-profit organizations (NPOs) providing specific social services.

The challenging aspect of creating an organisation structure is that requirements for vertical and horizontal structures coexist at the same time. In a bank, for instance, cheque processing is a fairly standardised activity requiring low level of skills and repetitive operations with high centralisation of authority. In the same bank, the investment division or marketing department may perform specialised activities requiring unique skills. You can observe that the characteristics of these two forms of structures that often coexist in organisations are mutually contradictory resulting in an inherent tension. Real-life organisations continually try to balance these two conflicting structures and minimise the tension.

Stages of Development of Organisations

A way to look at how structures evolve is to view how organisations evolve. This evolution is called stages of development of organisations. Many scholars including Chandler[3], Salter,[4] Thain,[5] and Scott[6] have contributed to the thinking that any organisation, as it grows in size and diversity, moves from a simple to a complex organisational form. This concept is analogous to that of the product life cycle. Organisations also follow a life cycle consisting of the introduction, growth, maturity, and decline phases. The life cycle of organisations could be divided into four stages that are not distinct and may overlap. Let us look at each of these four stages of development of organisations and note the types of strategies they would suit.

Stage I organisations are small-scale enterprises usually managed by a single person who is the entrepreneur-owner-manager. These organisations are characterised by simplicity of objectives, operations, and management. The form of organisation is also simple and could be termed as entrepreneurial. Strategies adopted are generally of the expansion type.

Stage II organisations are bigger than Stage I organisations in terms of size and have a wider scope of operations. They are characterised by functional specialisation or process orientation. The organisational form is simple functional (typically divided into the finance, marketing, operations, and personnel departments) or process-oriented (divided into process-based departments arranged in a particular sequence according to technology employed). Strategies adopted may range from stability to expansion.

Stage III organisations are large and widely scattered organisations generally having units or plants at different places. Each division is semi-autonomous and linked to the headquarters but functionally independent. The divisions may have simple functional form depending on their particular needs. Strategies adopted may be either stability or expansion.

Stage IV organisations are the most complex. They are generally large multiplant, multiproduct organisations that result from the adoption of related and unrelated diversification strategies. The organisational form is divisional. The corporate headquarters assume the responsibility of providing strategic direction and policy guidelines through the formulation of corporate-level strategies. The division (which may be companies, profit centres or strategic business units (SBUs)) formulate their business-level strategies and may adopt Stage I, II, or III form of structures.

A look around at the different organisations will show that they do seem to follow the different stages mentioned above. Most companies have started as one- or two-person units in an entrepreneurial mode. The trading business families such as *Birlas* of Rajasthan or *Palanpuri Jains* of western India started as entrepreneurs and are today the dominant family groups in India as well as abroad. Through expansion, in time, the companies have become bigger, creating the need for subdivision of tasks which usually takes place along functional lines. Further, expansion creates the need for setting up additional plants and if diversification strategies are adopted, then the organisational forms may ultimately become divisional. Exhibit 11.2 presents an interesting analysis of how organisational structures have evolved in the Indian context over the past century. Here we see, besides the stages of development of organisations, the impact of the wider business environment impacting the forms of organisations within.

Exhibit 11.2 The Evolution of Organisation Structure in Corporate India

Business Today makes an interesting analysis of the chronological evolution of the organisation structure within Indian firms. The structures analysed show the firms responding to the environmental situation prevailing during a particular time period. Here is an account of how structures have evolved from the pre-1940s to the post-1990s.

- *One-man organisation (Pre-1940)*: The CEO is the hub around which there are workers.
- *The classic triangle (1940–50):* The functions of sales, finance, and production are designed below the direct control of the CEO.
- *The managing agency (1950–60)*: The foreign company provides the licence to the local partner who acts as the managing agent. The functional areas are directly looked after by the managing agent who acts as the CEO.
- *The functional structure (1960–70):* The traditional and popular structure of various functional areas directly under the control of the CEO.

- *The cross-holding structure (1970–80):* The promoter (most often a family group or a powerful industrialist) has equity holding in several companies and exercises organisational control in the same proportion.
- *The conglomerate (1980–90)*: The business / family group emerge as the focal point managing a clutch of businesses vested in different companies. Each company manages one or more businesses.
- *The streamlined group (Post-1990):* The group emerges as the focal point of structure with businesses vested in subsidiaries, joint ventures, and equity alliances. The organisational control is exercised through a flagship company.

The emerging forms of organisation in the twenty-first century-India could be radically different from those in the past. New technologies and changing market conditions enable segmentation of customer groups and differentiation of products and services. Declining transaction costs and the managing and leveraging of knowledge is likely to alter organisational boundaries. Disaggregation of strategic decision within organisations may be reflected in disaggregated structures. Network structures that rely on linkages to other organisations based on knowledge sharing is another likely development. This might already be taking place internally where intensive coordination and linkages between internal knowledge centres exist in organisations.

In a positive way, organisation structure may have to accommodate humane concerns such as providing growth opportunities to employees including women and trends such as working away from workplaces.

Source: Based on A. Roy, 'Forms for the Future,' *Business Today* (7–21August, 1995): 68–81; I. J. Parikh,'The Empowered Workforce,' and S. Khanna,'Multidivisional Knowledge Networks.' Both articles appeared in *Business Today* Millennium edition (7 January, 2000).

The stages of development theories present a convenient way to understand the way how the structure may evolve as the organisation moves from one stage to the next. But, in practice, many variations may occur. It is not necessary that all organisations pass through every stage of development, nor does every organisation exclusively exhibit the characteristics of one stage.

11.2 FORMS OF ORGANISATION STRUCTURE

LO 2

There are several forms of structures that are found in organisations. Here, some major forms of 'pure' structures are briefly described, with special emphasis on their appropriateness for the different forms of strategies. In practice, the actual organisational structure may be a combination of these pure structures. Such combinations are called hybrid structures.

Common Forms of Organisation Structures

You must have learnt about the forms of organisation structures in your courses in management and organisation such as principles of management or organisation behaviour. Here we briefly review the common forms of organisation structures to make you recall what you learned. We will also see some emergent forms of structure and structures that are required for managing inter-organisational relationships.

Entrepreneurial Structure A typical entrepreneurial structure is the most elementary form of structure and is appropriate for an organisation that is owned and managed by one person. A small-scale industrial unit, a small proprietary concern, or a mini-service outlet may exhibit the characteristics of organisations which are based on an entrepreneurial structure. Typically, these organisations are single-business, -product, or -service firms that serve local markets. The owner-manager looks after all decisions, whether they are day-to-day operational matters or of a strategic nature.

Functional Structure As the volume of business expands the entrepreneurial structure may outlive its usefulness. The need arises for specialised skills and delegation of authority to managers who can look after different functional areas. Note that specialisation of skills is both according to the line and staff functions. The functional structure seeks to distribute decision-making and operational authority along functional lines. This is a very common and ubiquitous form of structure.

Divisional Structure The structural needs of expansion and growth are satisfied by the functional structure but only up to a limit. There comes a time in the life of organisations when growth and increasing complexity in terms of geographic expansion, market segmentation, and diversification make the functional structure inadequate. Some form of divisional structure is necessary to deal with such situations. Basically, work is divided on the basis of product lines, type of customers served, or geographic area covered and then separate divisions or groups are created and placed under the divisional-level management. Within divisions, the functional structure may still operate.

In *product-based structures* the grouping of activities is on the basis of the product or product lines. It is followed by organisations where there is a need to delegate to a division all functions related to that particular product or product line. Such a need arises when the strategy adopted requires exclusive attention to a product or a group of products. Expansion and diversification strategies may require a product-based structure as it facilitates the addition or deletion of product divisions.

In *customer-based structure* divisions may be created on the basis of the customer groups served so that it would enable the organisation to provide exclusive attention to separate and distinct customer groups. Thus, an organisation may have individual sales divisions and institutional sales divisions to serve consumers and institutions respectively.

Geographic structure is used for multiplant or multiunit organisations which have several factories and offices dispersed geographically on regional, territorial, or zonal basis. This form of structure evolves in the process of expansion and diversification. When an organisation acquires another firm or wishes to set up additional factories at different sites, geographic structure is a natural choice.

Strategic Business Unit Structure When organisations face difficulty in managing divisional operations due to an increasing diversity, size, and number of divisions, it becomes difficult for the top management to exercise strategic control. Here, the concept of SBU is helpful in creating an SBU organisational structure. Conceptually, SBU is 'a discrete element of the business serving specific products-markets with readily identifiable competitors and for which strategic planning can be conducted'.[7] Strategic Business Unit has been defined as 'any part of a business organisation which is treated separately for strategic management purposes'.[8] Essentially, SBUs can be created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority on the basis of common strategic interests.

Matrix Structure In large organisations, there is often a need to work on major products or projects, each of which is strategically significant. The result is the requirement of a matrix form of organisation structure. Essentially, such a form of structure is created by assigning functional specialists to work on a special project or a new product or service. For the duration of the project, the specialists from different areas form a group or team and report to a team leader. Simultaneously, they may also work in their respective parent departments. Once the project is completed, the team members revert to their parent departments.

Network Structures The increasing volatility of environment coupled with the emergence of knowledge-based industries has led to the emergence of a network structure. Also known as the 'spider's web structure' or the 'virtual organisation', the network structure is 'composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks'.[9] This structure is highly decentralised and organised around customer groups or geographical regions. Rather than being located in one place, the business functions are scattered far and wide. The core organisation is only a shell with one small headquarters acting as a 'broker' connected to suppliers and specialised functions performed by autonomous teams and workforces. The network design underlying the network structure 'subcontracts some or many of its operations to other firms and coordinates them to accomplish specific goals'.[10] The network structure is most suited to organisations that face a continually changing environment requiring quick response, high level of adaptability, and strong innovation skills. This structure makes extensive use of outsourcing of support services required to produce and market products or services. There are few resources internally and the network structure firm relies heavily on outsiders who are specialised in their respective areas.

All the structures described till here have their own advantages and disadvantages. It is the task of strategists to choose the form of structure that would suit their strategies best. The search for better fitting structure is, therefore, continual. The changing nature of environment and industry dictates, in part, what form of structure would be adopted.

Structures generally evolve as the organisation moves from one stage of growth to the next. The external and the internal environments affect organisation design in different ways. For instance, an organisation which faces a stable environment may use a functional structure since there is less need for interdepartmental coordination and communication, and innovation. On the other hand, a volatile environment demands a rapid-response capability, flexibility, and quick decision-making. Such demands can be better met by the creation of a divisional or a matrix form of structure. The internal environment may also affect the structure in a similar fashion. A bureaucratic, slow-moving organisation may work better with a functional structure while a dynamic and innovative organisation may have to use a divisional structure. In sum, it could be said that there is no one absolutely correct way to organise and the organisation design has to be based on the particular needs of the organisation and the strategy being implemented at a given time. It is in response to this need that new forms of structures keep emerging.

Emerging Forms of Structures

Besides the six forms of common structures we learned there are several forms of emerging new forms of organisation structure. The network structure described above is an emerging form of structure. Other examples are of the horizontal organisation and delaminated matrices form of structures.[11] *Horizontal organisations* are based on structure that corresponds to the process of providing product or service to the customer rather than the functions that the organisations perform. So, instead of the traditional functions of marketing or finance becoming the basis for departmentation it is the core processes managed by cross-functional teams that become the basis for structuring. *Delaminated matrices* are combinations of horizontal organisations with functional structure where the firm retains the process-oriented horizontal teams with functional departments providing the depth of expertise and capabilities to perform those functions. In this manner, the functional layer and the process layer of the traditional matrix organisation is separated and the workers and staff of the firm are assigned to either functions or teams but not both. A *boundary less organisation* conceptually has no barriers between departments internally or between the organisation and the external environment. *Modular organisations* retain core functions and outsource all non-core functions. For a comparison of traditional and emerging forms of organisational structures have a look at Exhibit 11.3.

Exhibit 11.3 Differentiating Traditional and New Forms of Organisation Structure

Form of organisation structure / Basis of difference	Traditional form of organisation structure	New form of organisation structure
Structure	Formal hierarchy	Team- and group-work structures
Boundaries	Durable, clearly defined	Porous, loosely-defined
Response to uncertainty	Absorb	Adapt
Purpose	Efficiency and stability	Effectiveness and innovation
Size of organisation	Generally large	Generally small
Nature of power and authority	Concentrated, centralised	Distributed, decentralised
Direction of goal-setting	Top-down	Decentralised
Function of leadership	Control and monitoring	Guidance and managing conflict
Asset ownership	Owned by organisational units	Shared between organisational units
Nature of functions performed	Routine and repetitive	Non-routine and emergent

Contingency theories, which you might have studied in your introductory course on management or organisation behaviour, explain much of the diversity of organisational forms. As technology, products, and markets become more complex and uncertain, and managerial tasks and activities increasingly heterogeneous and unpredictable the organisations are likely to adopt more adaptive and flexible structures. This may be accomplished by moving away from rigid, bureaucratic forms of organising called mechanistic structures to flexible, organic structures.[12]

The classification of organisational structures into mechanistic and organic is quite popular. *Mechanistic structures* are rigid, hierarchical, suited to stable conditions while *organic structures* are flexible arrangements, adapting to conditions of rapid change and innovation. Neither is inherently wrong or right but has to suit the environment of the organisation in which they exist.[13] The structure of an organisation may consist of the characteristics of mechanistic and organic structures in different parts making it an *ambidextrous organisation structure* capable of responding to incremental as well as radical technological changes.[14]

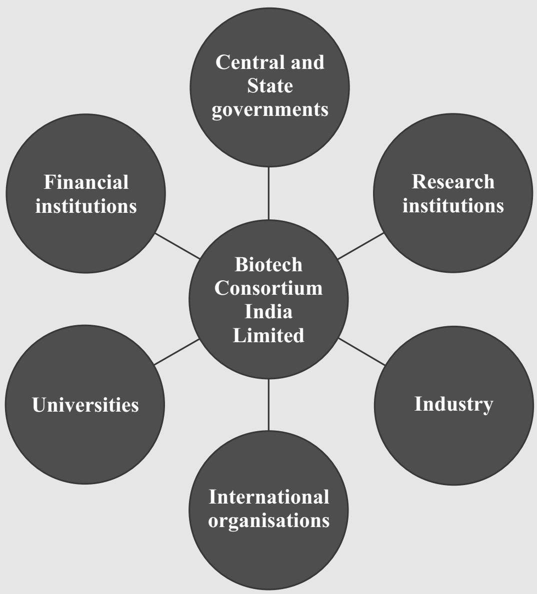
Structures to Support Inter-organisational Relationships

Organisations have always interacted with other organisations. A company has buyer and supplier organisations, distribution channel intermediaries, government agencies, and a host of other organisations to deal with. An emerging strand of organisational structure is that of establishing horizontal relationships with other organisations to tackle increasing environmental complexity and uncertainty. This trend of establishing horizontal relationships across organisation is called inter-organisational relationships that are 'relatively enduring resource transactions, flows, and linkages that occur among two or more organisations'.[15] Organisations can choose to build relationships in many ways such as appointing preferred suppliers, establishing agreements, business partnering, setting up research and development (R&D) consortia, outsourcing services, entering into joint ventures, and even mergers and acquisitions (M&As).[16] The trend of coopetition (competition and cooperation simultaneously) could also be seen in the context of building partnerships rather than adversarial relationships with competitors. These arrangements require internal structures that can effectively respond to the need for establishing inter-organisational relationships.

The structures to support inter-organisational relationships are horizontal structures extending externally to partner organisations. These create a network of organisations rather than just a network structure as we discussed previously. Such a network of organisations is driven by a host of factors such as the increasing importance of knowledge, technological complexity, global competition, and the availability of digital information technology.[17] Called *strategic business nets*, such a network of organisations is interconnected with the purpose of achieving common strategic purposes.[18] An example of inter-organisational relationships is of airline companies partnering with hotel chains, car rental, cruise liner, and catering companies, other airline companies, logistics providers, and a host of other organisations in a massive joint effort at serving their clientele better and thereby enhancing their effectiveness. A specific example is of Biotech Consortium India Ltd. (BCIL), a company for commercialisation of biotechnology, set up by the Government of India's department of biotechnology in association with financial institutions and Indian companies. Exhibit 11.4 shows how the BCIL acts as the strategic centre firm connected to its various partners. In the case of BCIL, this network structure become quite relevant as it is beyond an organisation's capacity to work on a frontier area of technology single-handedly without seeking collaboration of other organisations. Despite their many benefits, inter-organisational relationship may place a great strain on the internal structure of the organisation in the form of additional departments and people required to liaise with the partners unless proper structures are not in place to do so. Evolving horizontal structures are meant to provide support for establishing and maintaining inter-organisational relationships.

Exhibit 11.4 Inter-organisational Relationship of a Biotechnology Consortium

The Biotechnology Consortium India Ltd. (BCIL) is a company promoted by the Department of Biotechnology of the Government of India in association with All-India Financial Institutions and a number of Indian companies to promote commercialisation of biotechnology in India. The Biotechnology Consortium India Ltd. provides services to its partners related to technology transfer, project consultancy, fund syndication, information dissemination, and manpower training and placement related to biotechnology.



Source: Adapted from website of Biotech Consortium India Limited at *http://bcil.nic.in/*. Retrieved 25 October, 2014.

This subsection has been devoted to an understanding of the forms of structures that can be used for designing organisation structures. We also referred to the emerging, new forms of structures, and to the need for creating structures for establishing and maintaining inter-organisational relationships. These structures are, however, just building blocks and it is up to the strategists within organisations to decide which way to use them.

During the implementation of strategy, a strategist may often be faced with issues like the choice of structural components and the manner in which these components could be brought together to design an overall structure that satisfies the requirements of existing or proposed strategies. The skills of strategists are put to test when they design an appropriate organisational structure. Again, a more rigorous test is faced when the existing structure has to be changed to suit the requirements of a modified or new strategy. We take up these issues in the next section.

11.3 ORGANISATIONAL DESIGN AND CHANGE

LO 3

It may seem disappointing to hear but there is no best structure available anywhere. There are no good structures or bad structures too. There are only structures that match or do not match the requirements of strategy. If they match, then they are the right structures. If they do not match, then they are the wrong structures. The purpose of organisation design is to create the right structure that fits the requirements of strategy to be implemented. Strategists choose from among a wide choice of the forms of structures. Organisation change is meant to modify existing structures that have gone wrong over a period of time and no longer fit the requirements of the strategy being implemented.

It is an extremely difficult proposition to decide which form of structure would satisfy the requirements of a particular strategy. In general, strategists have to ask themselves: 'what organisational arrangement is required to implement the strategic plan and how best can it be done?' This entails creating or modifying an organisation structure that is based on those functions and activities that are critical from the viewpoint of strategy.

We first take up a brief discussion of organisation design. We will then move on to the issue of organisational change. Organisation design and organisational change are specialised topics and you might have studied them as a part of the curriculum of your management education programme in courses such as principles of management, organisation behaviour, and organisation theory and design. So, we will have an over arching review rather than a detailed description.

Organisation Design

Organisation design has two dimensions each with several sub-dimensions as mentioned as follows:[19]

- **Structural dimensions** describe the internal characteristics of an organisation.
  - o *Formalisation* is the amount of written documentation including procedures, job descriptions, regulations, and policy manuals.
  - o *Specialisation* is the degree to which organisational tasks are subdivided into separate jobs.
  - o *Hierarchy* of authority describes who reports to whom and the span of control for each manager. Span of control is the number of subordinates reporting to a superior.
  - o *Centralisation* is the extent to which decision making is made by the top management. Decentralisation is the extent to which authority to make decision is delegated to lower levels of management.

- o *Professionalism* is the level of formal education and training of employees.
- o *Personnel ratios* refer to deployment of people to various functions and departments. There could be administrative ratio, clerical ratio, or ratio of indirect to direct labour employees.

- **Contextual dimensions** describe the organisational setting that influences and shapes the structural dimensions. The sub-dimensions of the contextual dimensions are self-explanatory.
  - o *Size* refers to number of employees.
  - o *Organisational technology* are the tools, techniques, and actions needed to transform inputs to outputs.
  - o *Environment* refers to the external environment.
  - o *Goals and strategy* refer to purpose and plan of action of the organisation.
  - o *Culture* refers to underlying set of values, belief, and norms of the organisation.

The dimensions and sub-dimensions of organisation design are interdependent. A study of these dimensions and sub-dimensions helps to provide a basis for measurement and analysis of organisations and reveal significant information about them.

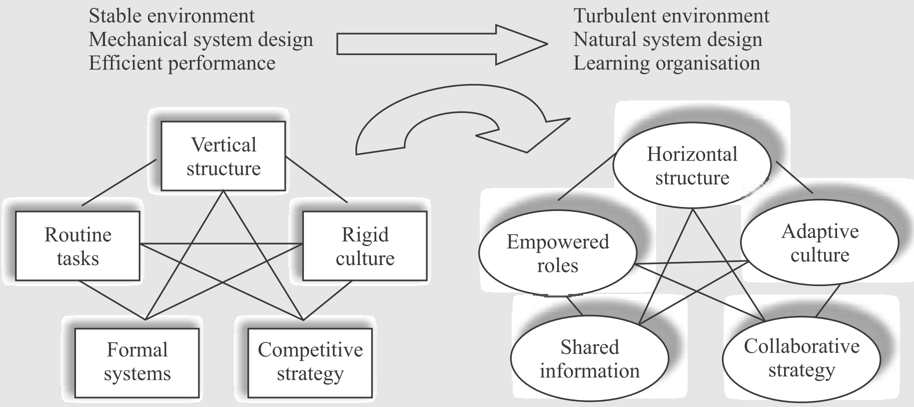
Organisational Change

The theme of change is ubiquitous in management literature. Change, rather than stability, is the norm in contemporary organisations in India and the world. Managers, as change agents, lead the process of change within organisations. The process of change encompasses a number of issues some of which are relevant to us here as we discuss organisational change. Besides structure—that is one of the major areas where change is effected within organisations—the others areas are of technology, products and services, and culture. Managing change is also one of the three major themes of strategy implementation.

Right at the outset, it must be pointed out that organisational change takes place along two broad dimensions: the structural changes and the accompanying behavioural changes. The first type of change is related to modifications in structural relationships and may entail, for instance, the creation or disbandment of departments or managerial positions. The second type of change relates to the concomitant behavioural modifications that are essential to absorb the impact of organisational changes. While structural changes are mainly administrative in nature and can be brought out by the means of organisational planning and implementation the behavioural changes are more complex and evolve as a response to structural changes.

All organisations make changes in their strategies, structure, and administrative procedures from time to time. In the past, when the environment was relatively stable, managers were content with making small, incremental, continual changes to resolve problems as they occurred. The perspectives of the past may not be suitable in the current environment that often requires big, radical, and sudden changes. Some of the changing structural characteristics of organisations are encapsulated in Exhibit 11.5. Observe how the mind set based on mechanical system organisation design is changing to one based on natural and biological systems. Earlier, organisations became bigger with imposing vertical structures performing routine tasks through formal systems. A rigid culture prevailed in the organisation. The strategies were mainly competitive. The situation is undergoing a change where organisations are designing horizontal structures. Employees are being provided empowered roles. The culture sought to be developed is increasingly adaptive. Information systems are designed to share information. Strategies are aimed not just at competing but also collaborating. The overall emphasis within organisations is changing from merely performing efficiently to becoming learning organisations.

Exhibit 11.5 Contemporary Organisation Design



Traditional organisational design characteristics	Emerging organisational design characteristics
One large firm	Small business units having cooperative relationships
Vertical communication patterns	Horizontal communication patterns
Centralised top-down	Decentralised participative
Vertical integration	Outsourcing and virtual organisations
Work- / quality-based teams	Autonomous work teams
Functional work teams	Cross-functional work teams
Minimum training	Extensive training
Individual-focussed specialised job design	Value-chain team-focussed job design

Source: Comparative changing characteristics of the traditional organisational design and the emerging thinking in organisational design adapted from B. Macy and H. Izumi, 'Organizational Change, Design, and Work Innovation: A Meta-Analysis of 131 North American Field Studies - 1961-1991,' *Research in Organizational Change and Development*, 7, (1993): 235–313 and Organisation Design Approaches of Mechanical and Natural System Designs from D.K. Hurst, *Crisis and Renewal: Meeting the Challenge of Organizational Change* (Boston, Mass.: Harvard Business School Press, 1995

It is to be pointed out that significant changes in thinking related to organisation structural design have been taking place worldwide and is impacting Indian companies too. Some of the major ideas in this context are of restructuring, reorganisation, reengineering, delayering, and flatter structures. *Restructuring* or *reorganisation* refers to changing the organisation structure in line with changes in the environment and strategies. *Reengineering* (or business process reengineering) is the fundamental rethinking and radical redesign of business processes to achieve dramatic gains in areas such as cost, quality, service, and speed.[20] *Delayering* is reducing the number of levels in the organisational hierarchy with a view to facilitate better control and communication within the organisation. *Flatter structures* result due to delayering. In our discussion we also referred to network structures, structures for inter-organisational relationship, virtual organisations and modular organisations. In this manner, organisations are attempting to adapt their organisation structures to the demands of the emerging environment going through a process of evolution continually.

The illustration of Indian Aluminium Company Ltd. (Indal), a major private Indian aluminium company, serves to demonstrate the evolution of organisational structure. Indal was the largest downstream fabricator of primary aluminium in India, with vertically integrated operations that include mining, refining, and smelting operations. It was acquired by the Aditya Vikram Birla (A.V. Birla group) from Alcan in 2000. During the mid-1970s, Indal had a predominantly functional structure with a geographical component. It was reorganised in 1976 to a modified functional structure that decentralised some of the functional areas to the geographical component of the structure headed by business managers. The structure further evolved in 1990 to divisional structure retaining some of the functional and geographical components.[21] In 2004, Indal merged into the Hindustan Aluminium Company Ltd. (Hindalco).

The National Institute of Information Technology (NIIT)—a global IT learning and knowledge solutions company has undergone several structural changes over a period of time. In 1989, it had a divisional structure that served its purpose of rapid growth for the next 5 years. In 1995, it adopted a global matrix structure in line with the requirements of its internationalisation strategies that have taken it to more than 30 countries. Yet again, after 5 years in 2000, it adopted an independent business unit structure with a corporate centre with several systemic changes.[22] In this manner, NIIT continually adapted its structure through initial (1981–90), growth (1991–2000) and expansion (2000 onwards) phases.

Bharti Airtel transformed its structure to reflect the change in its emphasis on being a customer-oriented from a technology-oriented organisation. For doing so, it created two customer business units to deal with B2B and B2C each with different focus on market segments of large corporate and carriers and retail customers, homes and small offices respectively.[23]

These illustrations give us the idea that structures need to respond to strategy changes. We see the relationship between structure and strategy in the next section.

11.4 STRUCTURE AND STRATEGY

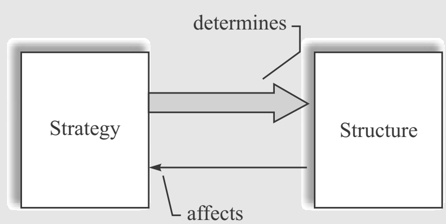
LO 4

The prescription for consciously matching the organisation structure to the particular needs and requirements of strategy has arisen out of research done by Chandler who proposed the idea that structure follows strategy.[24]

Though Chandler's thesis that strategy changes require structural changes to achieve economic efficiency is logically powerful, subsequent researches have generally supported the idea that structure and strategy have a two-way, reciprocal relationship. When structure follows strategy, it is an illustration of the forward linkage, a relationship that was discussed in Section 10.3 in the previous chapter. The structure flows from strategy. Once in place, the structure tends to influence how present strategies are implemented and also how future strategies would be formulated. That is how structural considerations also affect—if not determine—strategy, which is a case of backward linkage.

Exhibit 11.6 presents a two-way relationship of structure and strategy. Note the emphasis on the forward relationship from structure to strategy. This means that strategy determines the structure in a major way. It does this by providing the necessary infrastructure and administrative mechanisms that enable implementation of the chosen strategy. The structure conversely impacts the strategy but to a lesser extent. The structure once established might support or preclude the selection of some types of strategies and thereby affect the strategic choice. Ideally, the structure of an organisation should be such that it enables smooth implementation of chosen strategies, supports operational flexibility to improvise and revamp as implementation moves on, and facilitates choice of future strategies.

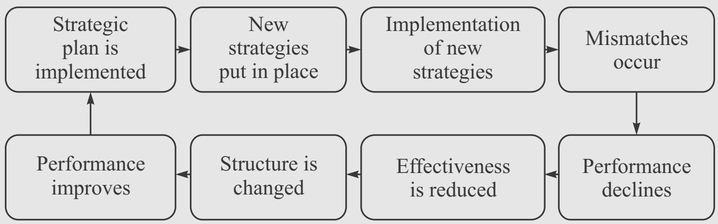
Exhibit 11.6 Interrelationship of Structure and Strategy



The two-way relationship among strategy and structure helps us to understand what structural implementation is. It is the continual process of matching the structure of an organisation with its chosen strategy. Exhibit 11.7 shows why structural implementation is needed.

When an organisation implements a new or revised a strategic plan, new or modified strategies are put in place. The implementation of these strategies starts taking place. As strategies are implemented managers notice mismatches that occur owing to a variety of reasons. For instance, the administrative mechanisms in the organisation may not be relevant to the strategies being implemented or interdepartmental conflicts may arise. As a consequence of these mismatches, the performance declines leading to a reduction in effectiveness. When the structure is changed appropriately to resolve the problems, performance improves leading to better effectiveness. This cyclical process goes on as new strategies are implemented.

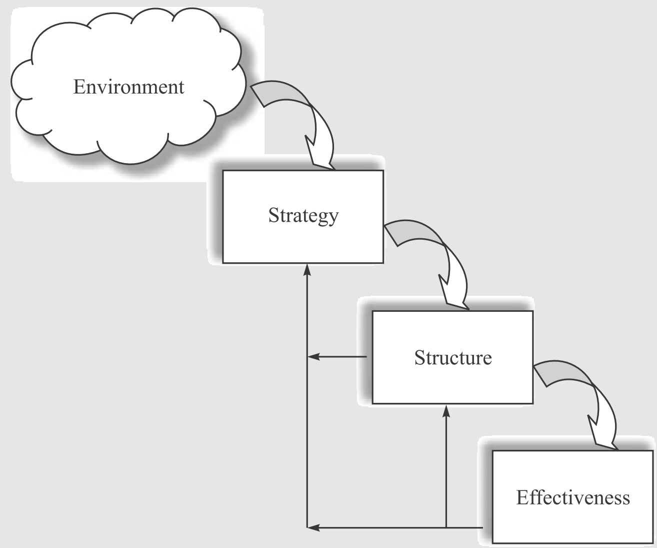
Exhibit 11.7 Why is Structural Implementation Needed?



An example from the competitive insurance industry in India could serve our purpose to understand how strategy and structure interact. Sometime in 2003, the top management at Bajaj Allianz realised that its multi-layered pyramidal structure with centralised authority may not work in the emerging scenario. There was a chief executive officer (CEO) assisted by deputy chief operating officer, chief financial officer, president of R&D, and heads of sales and marketing. At the operational level, the underwriting authority of the branch head was restricted and proposals were sent up to the head office for decisions leading to delays and customer dissatisfaction. The capacity of the company to service clients was limited and it had a narrow product and service portfolio. As a result, the company could only have small individual policies placing restrictions on growth. Post-2004, the company went into high gear and started implementing a rapid expansion strategy. Authority was decentralised with branch offices given autonomy to accept or reject proposals. Branch managers were handed the responsibility to prepare their targets and focus on high net worth individuals to raise revenue. The product portfolio was strengthened and distribution network was expanded. Of course, there was some heartburn among existing top managers and quite a few left the company owing to whittling away of their authority as a consequence of decentralisation. The company had to poach managers from rivals to make up the shortfall. The net result of structural implementation is that the company was able to perform effectively and started showing good financial results.[25]

Further to the 'structure follows strategy' prescription by Chandler, the theory of organisation structure was extended by Child to include environment and effectiveness in the sequence to pinpoint the nature of choice that strategists make. He says that managerial choice occurs at the interface of environment and strategy, which then determines the structure.[26] This could be understood by the fact that greater is the environmental complexity and uncertainty, the higher may be the intricacy and elaborateness of the organisation structure. This is understandable since a more elaborate and intricate organisational arrangement within would be required to respond to complex and uncertain environmental conditions outside. The relationship between strategy and structure is spanned by environment in one direction and effectiveness in the other as we can see in Exhibit 11.8.

Exhibit 11.8 Environment, Strategy, Structure, and Effectiveness



Structural implementation is more concerned with the match that should exist between strategy and structure. In other words, a particular strategy creates special requirements that should be fulfilled by the structure. If it does not, then the structure will have to be redesigned. What shape the structure should take if a particular strategy is to be implemented successfully is difficult to answer. In the next section, let us try to grapple with this issue of which forms of structures could suit which types of strategies.

11.5 STRUCTURES FOR STRATEGIES — LO 5

Keeping in mind the type of environment faced by a firm at a given time and the strategy that it adopts at the corporate- and business-level the structural change can be envisaged. But organisational changes go beyond mere structural modifications and encompass the issues of how people would react to the changed situation, how the new relationships would be managed, and in what manner would the cohesiveness of the organisation be maintained. These are the behavioural issues and will be taken up for discussion in a subsequent chapter dealing with behavioural implementation. Here, we focus only on the formal-structural dimension of organisational change.

An example will serve to illustrate the nature of structural and behavioural changes. An organisation which follows a corporate-level strategy of stability has a simple functional structure in existence. This firm now plans to diversify into a related area and this strategic shift has to be reflected in organisational changes. The choice of structure leads to a divisional form of structure where a new division with a few departments is created to support the related product lines. Some of the functions like personnel and finance are retained at the corporate level as centralised departments.

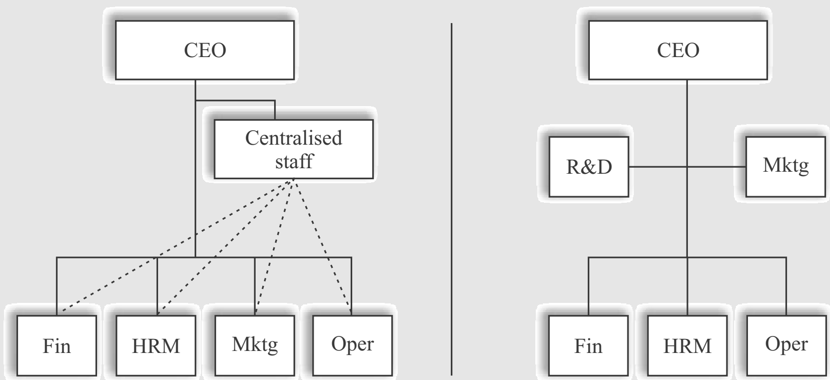
Again, for instance, taking the case of business strategies can be seen that a firm pursuing a low-cost strategy in a mature, stable business can do with a simple functional structure. If there are some changes required then these can be planned in advance. But if a firm operates in a volatile environment and it decides to adopt a differentiation business strategy then a divisional structure could serve the needs better. By this, the firm can hope to cater to changing customer needs more effectively. Let us take up different business strategies and have a general discussion on which structures may suit their requirements better.

Structures for Business Strategies

Business strategies (discussed in Chapter 7) are cost leadership, differentiation, and focus strategies. Each of these creates a different set of requirements and thus requires a different organisation design with different structural arrangement.

What do organisations adopting a cost leadership want to accomplish? First, they want to sell large quantities of products or services to a lot of customers in the industry or a segment (for focus cost leadership) and secondly, they want to reduce costs to bare minimum. A cost leadership strategy would require an efficiency approach to organisation design, as shown in Exhibit 11.9. This means a strong, centralised authority to direct actions backed by stringent controls to keep a close check on costs. Standard operating procedures would guide employees in performing routine tasks under close supervision. There would be less autonomy for the employees and more emphasis on strong leadership. Decision-making authority could be centralised in a staff function to emphasise cost reduction in all functional areas. In terms of relative importance, operations could be the main functional area. Jobs would have to be highly specialised so that there is high level of employee efficiency reducing per unit cost of product or service. Overall, the structure could be mechanistic.

Exhibit 11.9 Structures for Business Strategies



Organisation design for attaining cost leadership

- Efficiency orientation
- Strong central authority
- Tight cost controls
- Detailed control reports
- Standard operating procedures
- Highly efficient procurement and distribution systems
- Close supervision
- Routine tasks
- Limited or no employee empowerment

Organisation design for attaining differentiation

- Learning orientation
- Flexible, loosely-knit organisation
- Stress on horizontal coordination than vertical control
- Strong capability in R&D
- Lots of leeway for employees to be creative and innovative
- Rewards for risk-taking
- Broad guidelines to performance of activities
- Liberal amount of employee empowerment

Source: Comparison of Organisation Designs from R.L. Daft, *Organization Theory and Design* (Mason, Ohio: South-Western, 2004): 63–64. Ideas for Structures for Cost Leadership and Differentiation from M.A. Hitt, R.D. Ireland and R.E. Hoskisson, *Strategic Management: Competitiveness and Globalization* (Mason, Ohio: South-Western, 2007): 344–46.

Organisations that adopt a differentiation business strategy want to produce products and services that customers see as being different in ways for which they are willing to pay a premium price. A differentiation strategy would require a learning approach to organisation design (See Exhibit 11.9). The organisation structure would have to be flexible and have mechanisms for horizontal coordination like teams to facilitate cross-functional product development. Decision-making authority needs to be decentralised so that the organisation can respond fast to changes in the external environment. Employees would have to be empowered to exhibit creativity and innovation in looking for newer ways for differentiating products and services and be in close touch with markets and customers. Low job specialisation tends to support employees performing a wide range of tasks. The functional focus would have to be marketing and R&D rather than operations. Overall, the structure could be organic.

Focus business strategies for cost leadership and differentiation could use similar organisation design and structures as for the generic cost leadership and differentiation respectively. There could be a difference in the emphasis placed on the extent of specialisation of jobs as focus strategies would generally require an added accent on either cost or differentiation. For integrated cost leadership-differentiation business strategies the challenges may be greater in organisation design and structure as mutually contradictory prominence would have to be given to reducing costs and creating added differentiation. For instance, there could be a need for stress on marketing and R&D for differentiation as well as on operations and process engineering to control costs.

Structures for Corporate Strategies

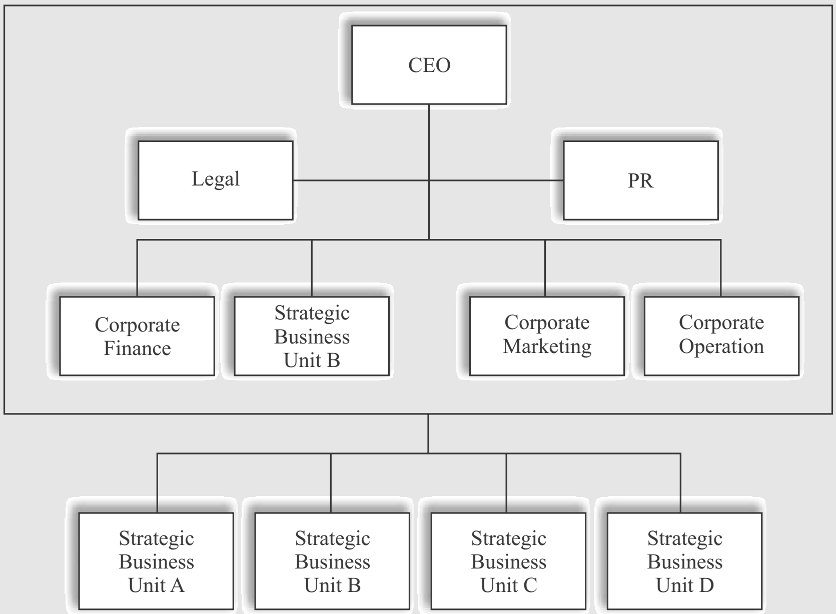
Corporate strategies of integration, diversification, internationalisation, and retrenchment generate differing requirements to be satisfied by different organisation designs and structures. Under corporate strategy of concentration the organisation does not do anything different from it is already doing so does not require structural changes. The only change in organisation design may be added emphasis on marketing for market penetration and development, and on R&D and operations for product development strategies.

Structures for integration strategies: Horizontal and vertical integration extend the value chain horizontally and vertically respectively. Horizontal integration generates commitment to adjacent businesses. Organisation design and structure may have to be changed to accommodate those adjacent businesses. Addition to existing structures may lead the organisation to create a geographical or product structure to cater to the requirements of horizontal integration. Under vertical integration the organisation extends itself either backward to raw materials or forward to the customers. These strategies would create requirements for the structure to be extended accordingly. Frequently, divisional structures satisfy these requirements as they do in the case of diversification strategies.

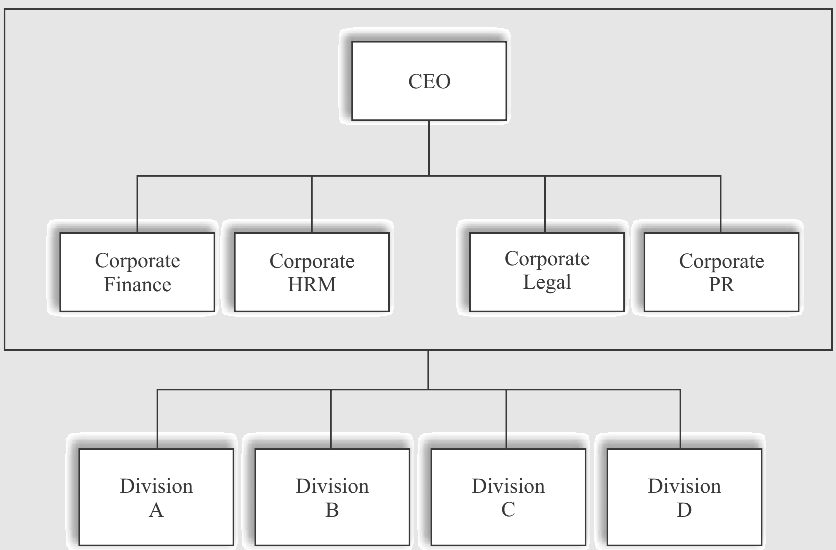
Structures for diversification strategies Diversification strategies are implemented through multidivisional and SBU structures. Depending on whether the diversification is related or unrelated, the structures would also reflect the differences. Exhibit 11.10 presents some illustrative structures for implementing related and unrelated diversification strategies. Observe that the corporate headquarter may retain some of the functions and decentralise some others depending on the nature of diversification. Related diversification would create the requirement of retaining linkages among functions and departments within the organisation so that synergies can play a role in creating economies of scope. Unrelated diversification implemented mainly through the multidivisional structure could ignore such linkages in favour of divisional autonomy to pursue a different line of business.

Exhibit 11.10 Structures for Corporate Strategies

Suggested Structure for Related Diversification

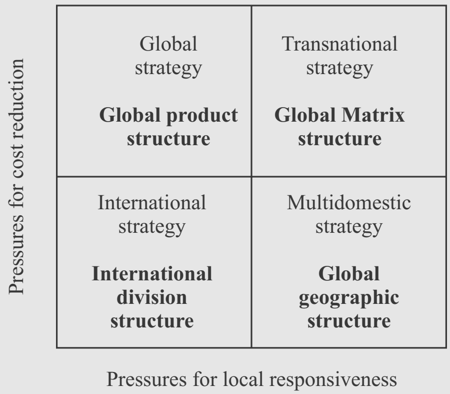


Suggested Structure for Unrelated Diversification



Source: Structures adapted from M.A. Hitt, R.D. Ireland and R.E. Hoskisson, *Strategic Management: Competitiveness and Globalization* (Mason, Ohio: South-Western, 2007): 347–53.

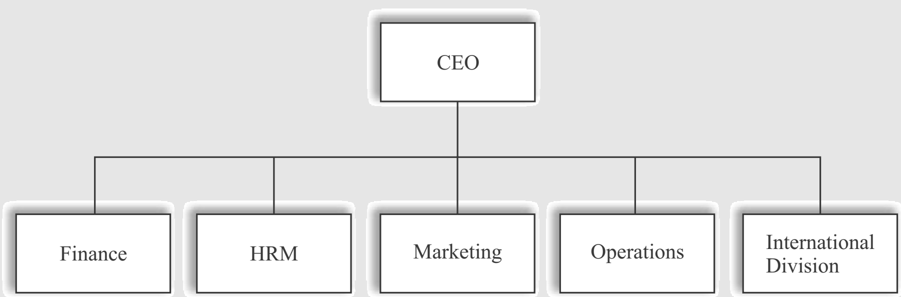
Exhibit 11.11 Structures for Internationalisation Strategies



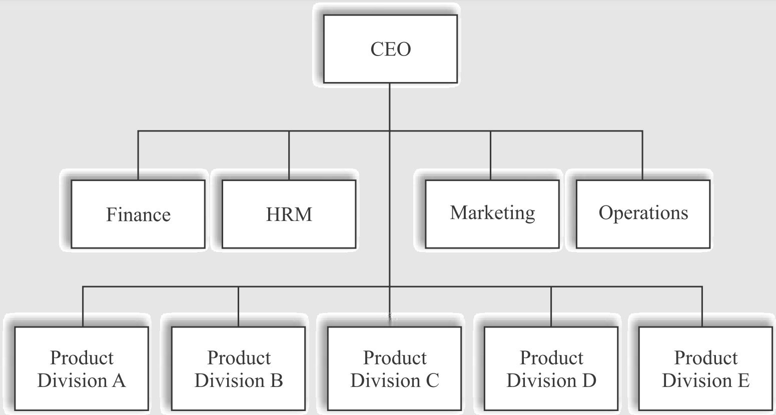
Source: Adapted from R.E. Whiteand T.A. Poynter, 'Organizing for Worldwide Advantage,' *Business Quarterly* (Summer, 1989): 84–89.

Structures for internationalisation strategies You would need to recall internationalisation strategies that we discussed in Chapter 6. We learnt that there are four types of internationalisation strategies: international, multi domestic, global, and transnational. Each of these internationalisation strategies creates its own requirements for organisation design and structure. A model that shows the appropriate structures for each of these internationalisation strategies is presented in Exhibit 11.11. International strategies that create value by transferring products and services to foreign markets where these products and services are not available could be implemented by setting up an international division as part of a hybrid structure. Multi domestic strategies try to match the products and services to the conditions of the markets being served. Global geographic structure could serve the need of multidomestic strategy. Using global strategies, organisations adopt a low-cost approach to offer standardised products and services globally. A global product structure could serve the need of a global strategy. Finally, transnational strategies being the most complex and challenging international strategies that seek to combine local responsiveness and low-cost approaches may have to rely on the global matrix structure. All these strategies and structures are shown in Exhibit 11.12.

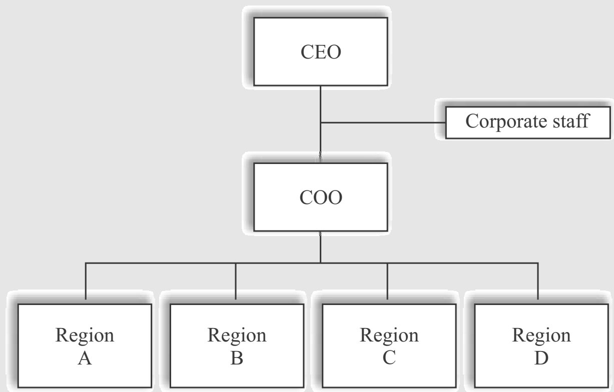
Exhibit 11.12 Suggested Structures for Implementing International Strategies



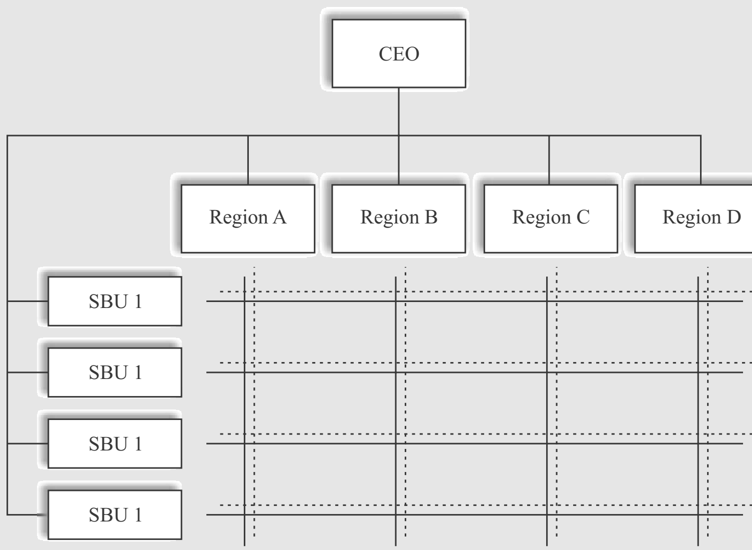
International Strategies: International Division Structure



Global Strategies: Global Product Structure



Multidomestic Strategies: Global Geographic Structure



Transnational Strategies: Global Matrix Structure

The other corporate strategies that we discussed in Chapters 6 such as stability, retrenchment, and combination do not involve significant organisation design and structural changes. For instance, stability strategies do not involve structural implementation. Retrenchment strategies may result in hiving off departments or divisions that are retrenched resulting in curtailed structures. Combination strategies may be dealt with restructuring as appropriate to the situation.

With this we come to the end of our discussion on structural implementation. Please note that structure operates in tandem with organisational systems that consist of control, information, appraisal, reward and motivation systems for the purpose of coordination and communication. These would be discussed in subsequent chapters on functional and operational implementation and strategic evaluation and control.

11.6 SYSTEMS FOR STRATEGIES

LO 6

We often use the terms 'structure and systems' and 'systems and processes' to denote their close connection. Organisational systems and processes are the wheels that make any organisation go. An organisational system is a set of interacting elements devised to accomplish a process. An organisational process is a series of activities undertaken to achieve a predetermined result. Organisations perform a variety of processes using a multitude of systems. Every manufacturing organisation performs a transformation process of converting the raw materials into finished products. They use a variety of management and production systems in doing so. Systems have sub-systems that are the interacting elements that make up a unified whole. The production system may have sub-systems of materials handling, assembly, and inspection. Thus, organisational systems and processes are an integral part of any organisation. From now on, in our discussion here, we will use only organisational systems to denote both the systems and processes of an organisation.

Further in this section, we take up three organisational systems laying special emphasis on the role that each of these systems play in strategy implementation. The three systems that we select are: information, control, and reward systems. These systems perform the role of coordination, integration, and communication to make the structure work. These three systems are illustrative of how systems work in organisations and how they are to be aligned with the strategy being implemented.

Information System for Strategy Implementation

Structure subdivides the total responsibility while the information system serves to coordinate the divided responsibility. If a strategy is to be effectively implemented then organisational arrangements are necessary that provide the information to managers to perform their tasks and relate their work to others. The information system, therefore, serves two important purposes: it enables the managers to know what they need to know in order to perform their tasks and also to coordinate their activities with others. Information technology is the means to make the information systems work for managers. That is why, for managers, IT is a tool for managing rather than strategy itself. Information systems, including usage of IT, have to be dictated by strategic considerations rather than strategies being determined on the basis of IT tools available howsoever sophisticated and impressive-looking these might be.

A broader term 'management information system' (MIS) is used to denote the organisational arrangement designed to aid managers in performing their activities. In terms of management levels, MIS has generally been thought of as being more feasible for the middle and operating management rather than the top management. This is so because the middle management is typically involved more in routine and repetitive tasks as compared to that of management which operates in a longer range strategic framework, thus reducing the need for real-time access to information. However, advances in IT underlying MIS have led to the development of information systems that aid in decision making and control. Examples of such information systems are decision support systems and executive information systems. Beyond information systems for decision making, IT is deployed through intranets, enterprise resource planning, knowledge management for internal coordination, and extranets and e-business for external coordination. Of particular significance to us here is the fact that availability of these means for internal and external purposes makes it possible for organisations to develop a tightly knit internal organisation structure and deploy horizontal integration and develop inter-organisational relationships.

The information systems play a significant role in all types of organisations to enhance not only the efficiency of other systems and processes but through the techniques of data warehousing and data mining help in storing data and making sense of it in order to make better quality decisions. As an illustration of a NPO one could think of a variety of data bases that could constitute its data warehouse: financial data, personnel and volunteers' data, donors and contributors' data, mailing lists, client programme records, etc. Data mining can help the NPO to decide where to focus its limited resources to generate more funds and achieve better results from its activities. All this has been possible owing to the phenomenon of digitalisation.

The alignment between information systems and management including strategy are of utmost concern to business people.[27] In the design and administration of the information system, strategists have to concern themselves with the need to have appropriate organisational arrangement that will support the implementation of a particular strategy. Often, the question is of having a primarily informal or a formal system for information. Organisations, in an initial growth phase having an entrepreneurial or simple functional structure may do with a relatively simple type of information system. As the complexity and diversity of operations increases, the need for a more formal information system arises.

Exhibit 11.13 presents the key dimensions of computerised information system (CIS) as relevant to the different types of generic strategies. The key dimensions are three, viz., policy stance (strict, flexible); hardware configuration (mainframe, microcomputers); and the system (transaction processing systems, decision support system).

Exhibit 11.13 Generic Strategies and Key Dimensions of Computerised Information System

Generic strategies	*Stability*	*Retrenchment*	*Growth*
Key dimensions	Rigid policy stance	→	Flexible policy stance
	Mainframe computers	→	Microcomputers
	Transaction processing systems	→	Decision support systems

Source: Adapted from J.C. Camillus and A.L. Lederer, 'Corporate Strategy and the Design of Computerised Information Systems,' *Sloan Management Review* (Spring, 1985): 35–42.

Corporate-level stability strategies requiring an efficiency orientation such as concentration strategies of market and product development need increased efficiency without appreciable increase in the volume of activity. In such a situation, an information system that supports efficient performance of clearly defined responsibilities, based on access to mainframe computer and transaction processing system aimed at repetitive and programmed would be more feasible. On the other hand, an expansion strategy such as integration, diversification, and internationalisation strategies would require a decisional or learning orientation that needs quick action and creative response. In such a situation, an information system that adopts a flexible policy stance, uses microcomputers, and adopts a decision support system would be more feasible. In between the two extreme dimensions lie several possible alternatives that could guide the design and administration of information system for different types of strategies. The implementation of internationalisation strategies in particular is facilitated by the availability of external coordination IT tools such as extranets and e-business.

Business strategies of cost leadership and differentiation depend on the organisation's ability to have efficiency, quality, innovation, and customer responsiveness. Information technology has a major impact on these sources of competitive advantage as it enables organisations to integrate knowledge and expertise across functional areas to deliver new differentiated products and services to customers. It also has an impact on the organisation's ability to innovate as employees have wider and greater access to information they need. Information technology thus helps in developing both efficiency as well as a learning orientation.

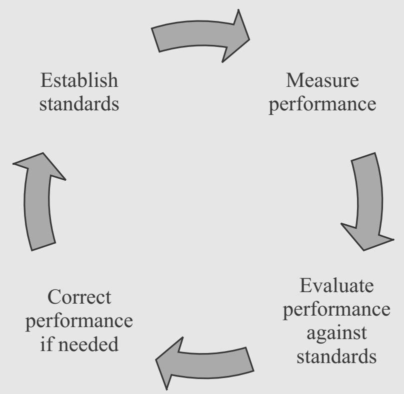
Strategists have to be aware of the implications of strategic changes on the requirements of the information system as this system provides the foundation for the design and administration of the other organisational systems. The next such system being discussed is the control system.

Control System for Strategy Implementation

Control has traditionally been considered as a major management function along with planning, organising, and leading. You must have read about organisational controls on so many occasions in your management education programme. You might have learnt what controls are, how do they operate, what types of controls are there, how much control is to be exercised, and the methods to exercise control. Here we are interested in discussing which control systems are suitable for a particular type of corporate and business strategies. But first let us have a quick review of the control process.

In controlling, the manager essentially deals with 'the processes for ensuring that behaviours and performance conform to an organisation's standards, including rules, procedures, and goals.' In other words, control ensures that the implementation of strategy takes place according to predetermined plans. Strategic controls are special types of controls intended to check whether appropriate strategies are being used. These will be discussed in a later chapter.

Exhibit 11.14 The Control Cycle



Basically, control operates in a cyclical manner as shown in Exhibit 11.14. It is viewed as a four-step process consisting of:

1. Establishing standards
2. Measuring actual performance
3. Evaluating actual performance against standards
4. Determining corrective action

The control process works to bring performance in line with the predetermined plan. Standards are in the form of budgeted performance. Measurement of performance is done through an appraisal system. The actual performance is evaluated with reference to the standards and positive or negative variation is observed. Corrective action follows so that the performance corresponds to the standards. This is the manner in which any control system works.

In practice, there are several issues that strategists have to consider so that the control system works effectively and satisfies the requirements of the strategy being implemented. The first issue is the need for a control system. The need for control arises from the fact that the result of subdivision of responsibility and creation of structure is dispersal of the total strategic tasks among different organisational units. Since the activities of each of these units are to be coordinated, controls are necessary. Controls are, in fact, devices to enforce or facilitate strategic behaviour so that the organisation, as an entity, moves towards the predetermined goals. All types of organisations—successful or failing—need controls.

Another important issue is of the type of controls to be used. Controls may be classified as preventive or corrective, formal and informal, direct or indirect, or social or individual controls. Formal controls are prescribed in nature and are based on quantitative, objective data. For instance, financial controls are based on accounting data and are used to quantify performance in fiscal terms. Informal controls are emergent in nature and are based on quantitative, subjective data. For example, adherence to ethical standards can mostly be ensured through informal means.

Besides the types of controls, strategists have to consider the issue of integrating the formal and informal controls. Since both types of controls are important, they have to be used by strategists in tandem. But it is important to decide the primacy to be given to either of them. In general, the lower the level of management where the control is to be exercised, the greater is the need for formal controls. Conversely, the higher the level of control, the greater is the need for informal controls. These propositions are understandable because the top management can more effectively control the behaviour and performance of managers who are in direct, personal touch. For employees at lower hierarchy, who have to be indirectly controlled, greater reliance has to be placed on formal controls. A performance management system such as the balanced scorecard tries to balance different criteria of performance to provide a balanced perspective. The role of information system in exercising control has assumed greater significance. Information systems can help by providing better quality data and information in a timely fashion to managers to exercise effective control.

The integration of formal and informal controls does not resolve the problem of changing the control mix as strategy changes. Here, strategists have to understand that, in general, strategies which require short-term efficiency of operations (e.g. stability strategies) would be more effective with a higher proportion of formal controls. Likewise, strategies which lay stress on long-term efficiency of operations and require speedy implementation (e.g. expansion strategies) will have to use relatively more informal controls.

Just like the classification of structures into mechanistic and organic, control system too have been categorised into mechanistic and organic control systems. Several authors provide an elaboration of mechanistic and organic controls. Mechanistic controls are in the form of rules, programmes, and procedures, hierarchy, and goal-setting. Organic controls are self-contained tasks creating slack resources with vertical information systems and lateral relations. Mechanistic controls are distinguished from organic controls on the basis of manager's discretion, power, and coordination within groups and interdependence between groups. Organic controls involve higher discretion and power, coordination by mutual adjustment and high interdependence between work groups.

Corporate and business strategies characterised by conservatism such as stability, concentration, or cost leadership may be served better by control systems that are formal in nature, focused on cost control, and having specific operating goals and budgets and rigid budget controls. On the other hand, strategies such diversification, internationalisation and differentiation may be implemented effectively through informal, open control systems characterised by more subjective long-term controls and interactive use of budgets focused on informal communications.

In the present context, when there is a gradual movement from mechanistic structures to organic structures it is understandable that control systems would also move from being mechanistic to organic. Strategic change in control systems may not be easy as it seems however. For instance, organic structures are likely to have structural innovations such as flat structures, delayering, networking, and team-based work groups that typically break the barriers between organisational activities. An organisation long used to traditional profit centres and responsibility accounting with hierarchical structures may be impervious to such strategic change causing mismatch between the types of strategies being implemented, structures used, and the control systems deployed. Issues such as coordination, performance evaluation, and reward systems assume greater importance at times of profound strategic changes.

Reward System for Strategy Implementation

One major function of a control system is to appraise the performance of individuals besides the evaluation of performance done at the corporate, business, functional, operational, and departmental levels. Organisations design and operate their reward systems on the basis of the appraisal of performance of individuals. The appraisal system performs the critical role of evaluating managerial performance in the light of organisational objectives. Managerial performance appraisal is an important element in the total control system that has been discussed in the preceding subsection. Organisations strive to control employees' behaviour by linking reward systems to their control systems.

The relevance of reward systems to strategy implementation can be seen from the fact they are to be linked to control system at one end and motivation at the other. The function of the control system is to enforce desirable behaviour and the appraisal system serves to evaluate performance so that strategically desired behaviour may be reinforced and undesirable behaviour curbed. The motivation system plays a positive role in inducing strategically desired behaviour so that managers are encouraged to work towards the achievement of organisational objectives.

Reward systems have two components: performance evaluation and feedback, and compensation that include salary, bonuses, stock, stock options, promotions, and other perquisites. Reward systems are synonymous with compensation management that is considered as a significant function of HR management. Another term you might come across is wage and salary administration that is the same as compensation management albeit with a connotation of the traditional view of administering the payment of wages to workers and salaries to employees. Prefixing strategic with reward system creates the term 'strategic reward system' that implies emphasis on motivating behaviour, action, and accomplishment that help advance the organisation towards specific organisational goals and aligning the organisational reward systems to overall organisational strategy.

Incentives are the means by which individuals can be motivated to perform better. Generally, the incentives are divided into two groups: the monetary and the non-monetary incentives. Monetary incentives are provided in the form of money. Salary, bonus, profit-sharing plans, etc. are common monetary incentives. Non-monetary incentives are in the form of rewards, recognition, designation, perquisites, etc. Both the types of incentives are important and are used by all types of organisations. However, there are limitations within which these incentives can be used. For instance, salary and other monetary payments have a limited role.

Organisations in India are facing the challenge of designing appropriate reward systems for their employees. Wage inflation and talent shortage are the two trends that have emerged as a consequence of the rapid economic growth. There are high-growth industries such as IT services, retailing, tourism, hospitality, insurance, and banking that face acute shortage of qualified and skilled employees. The compensation levels have also risen fast in tandem with economic growth that could be a good thing for the individuals but taxing for the employing organisations. Employee retention is also a challenge with high employee mobility raising the costs of recruitment and selection. Organisations have been trying a combination of actions to tackle these two challenges: 'high and differentiated compensation, innovative titles, faster (if at times illusory) career progression, training, a congenial work environment, more satisfying jobs, overseas exposure, opportunity to work on cutting edge technologies and problems, retention plans, referral schemes, etc. Success rates vary and the problems remain.'[28]

Strategists have to deal with the contentious issues related to the design and administration of motivation system as it is an important organisational arrangement to induce strategically desired behaviour. There are no set rules to decide the quantum and nature of incentives and much depends on an organisation's ability and willingness to provide money, its culture, the industry in which it exists, the general living and economic conditions, and the statutory obligations. Within organisations, the conditions are of maintaining parity among managers who perform similar work or carry nearly equal responsibility and to differentiate between unequal grades of employees.

Strategic and structural changes are likely to have an impact on the design and administration of the reward system. In entrepreneurial organisations, the reward system could operate in an informal manner as the size of organisation is small and there is a direct contact between the owner-manager and employees. As organisations become increasingly complex, the need for creating formal systems for motivation arises. Organisations in the expansion mode may require lesser monetary incentives as growth itself brings opportunities of better prospects for employees and ensures motivation. Conversely, stable organisations would need a mix of monetary and non-monetary incentives. The limit of monetary incentives may be reached in extremely large and complex organisations which provide creative outlets for individual managers who have reached the saturation level as far as monetary incentives are concerned. A similar occurrence may take place in NPOs that are typically strapped for funds to pay comparable salaries to their employees and volunteers as they may get in the corporate sector. They typically rely on the altruistic nature of non-profit work where the reward may often be seen in the personal satisfaction derived out of serving society.

Relating reward system to strategy implementation means that they have to be suitably designed to match the requirements of the strategy being implemented. For instance, stability strategies typically stress on improving efficiency in current operations and would require appraisal methods that primarily use objective criteria. On the other hand, expansion strategies aim at performance improvement in the long-run and short-term inefficiency may have to be overlooked. An appraisal method that uses objective criteria and evaluates short-range performance is likely to be inappropriate for implementing expansion strategies. The real need may be for a broad-based appraisal method that takes into account long-range performance. Expansion strategies such as diversification and internationalisation may also require that higher consideration be given to group rewards to teams rather than individual rewards. Team-based rewards and company-wide incentives could be particularly instrumental in enhancing knowledge sharing within teams and across work units.[29] Mergers and acquisitions may create a piquant situation when the two cooperating organisations have a different system of rewards and creating a unified system hurts employees of either of the organisations.

The practice of using reward as source of motivation is extremely complex and multifaceted. It offers enough scope for strategists, CEOs, and managers for improvisation. Overall, any appraisal system does not serve its purpose if its basic rationale is lost. The true function of any measurement is 'to increase the perceptions of the problems limiting achievement'.[30] Only a system of appraisal, motivation, and rewards that provides the strategists an understanding of the problems before managers, who are responsible for implementation, can prove to be an effective system.

Before we end this chapter, let us have an overview of the organisational systems and processes that we have discussed in this section.

Systems and Processes in Action

We observed in this section that organisational systems and processes play a vital role in the implementation of strategy. Further, changes in strategy create new requirements that have to be satisfied through modifications in the existing organisational systems. The tasks of strategy implementation and organisational change are extremely challenging. Imagine a motor mechanic repairing a car's engine with the engine running. So also is the strategist's role in strategy implementation. Abell calls the tasks dual strategies: the strategists have to run the current organisational structure and systems efficiently and simultaneously keep changing them to run more effectively.[31] The complexity of the tasks confronting strategists is amplified when one realises that the myriad systems and processes within organisations cannot work in isolation and have to work in tandem.

Exhibit 11.15 Organisational System Changes at the Aditya Birla Group

The Aditya Birla Group is headed by Kumaramangalam Birla, the great grandson of the legendary Ghanshyam Das Birla. His father, Aditya Birla is known for his vision in making the group go global as early as 1969 when Indian companies did not venture beyond the borders. The Aditya Birla group consists of both Indian and international companies. The product and service portfolio is wide ranging from apparels, cement, chemicals, fertilisers, financial services, metals, and telecom.

This exhibit illustrates the relationship of the strategies that the Aditya Birla Group adopted and the consequent changes reflected in the three systems of information, control and reward during the transition phase under K. M. Birla. The corporate strategy of the Aditya Birla Group was centred on expansion through acquisition and setting up new businesses, and internationalisation and was considerably more aggressive than the earlier strategies of cautious growth. Early strategic action included rationalisation of business portfolio resulting in divestment of some businesses, reducing the share of fibre-based businesses, and focus on non-ferrous metals and cement. The Aditya Birla Management Corporation Ltd. is the group's apex decision-making body and provides strategic direction to group companies. The business strategies varied across the 16 businesses with cost leadership the dominating business strategy adopted by most group companies.

The heritage of Birlas goes back to Pilani in Rajasthan, the state that has provided so many entrepreneurs and industrialists to the country. The groups' management style had been conservative and traditional but since the taking over of the group's leadership by K.M. Birla, the style underwent significant changes. He is known for an open style of management, prefers delegation of authority and power, encourages entry of professionals in the decision making structure, likes to think big, and is not a stickler when it comes to tradition. For instance, he put into effect a retirement policy soon after taking over that made many old-timers leave; their places were filled by professionals.

The organisational systems and processes had undergone changes over a period of time. In fact, some media reports point out the basic difference in the managerial style between father and son as the latter acting as an organisation man while the former was an entrepreneur.

Information system: The corporate IT oversaw the group's IT initiatives and provided policy guidelines regarding information security, business continuity plan, information system audit, and standardisation of technologies and platforms. The group had a SAP competence centre, a knowledge management portal called Aditya Disha—e-commerce, and e-learning infrastructure.

Control system: The group had taken initiatives to create a group brand identity. The different businesses were provided with goals to achieve indicating a top-down approach to control. There was a central cell to review long term planning and budgeting, take decision making on capital expenditure proposals, formulate and evaluate strategic initiatives, including M&A and corporate restructuring and evaluation of business performance. Corporate management audit cell looked after evolution, implementation and review of internal controls, cost reduction methods, group policies, assessment and mitigation of business risks and promoting effective corporate governance. The age-old indigenous financial accountability and control system, called the *parta* system, was replaced with economic value-added system.

Reward system: The Corporate Human Resource Cell dealt with the various aspects of human resource management in the group companies. Among other functions, there were the functions of formulating reward strategy, performance management, and organisational development. Over the years, the group had striven to become professional in terms of its reward system by becoming transparent and consistent, and instituting a meritocracy. There were several methods of rewards including an employee stock option scheme.

Sources: P. Srinivasan,'The Organisation Man,' *Business Today* (17 July, 2005); 'Focused on Growth,' *Business Today* (9 October, 2005); K. Datta, 'Kumaramangalam: The Biggest Birla,' *Business Standard* (19 September, 2005); Aditya Birla group website at *http://www.adityabirla.com/home*. Retrieved 10 November, 2014.

It is an extremely difficult proposition to find a real organisation which has followed all or most of the prescriptions of changes in organisational systems in line with strategic changes. This is owing to the fact that organisational changes are often not planned systematically, or if such changes do take place, they occur in the manner of organic adaptation in response to the requirements of the new strategy. In practice, therefore, organisational changes occur in bits and pieces rather than as a systematic whole. Another reason for this slow reaction to strategic changes is the organisational inertia arising out of the commitment to strategies followed earlier that prevents a clean break from the past. Despite these real difficulties, one occasionally comes across an organisation which apparently seems to have made some attempts to implement planned organisational system changes in response to the requirements of a new strategies.

Exhibit 11.15 provides an illustration of one such organisation. The A.V. Birla group, since the mid-1990s exhibited a dynamism that led to its becoming quite a profitable enterprise. Several of the steps it took earlier to redesign its organisational systems offer an insight into what an organisation could do. Note the change in leadership style of the young group chief as compared to his father and grandfather and how this affects his zeal for bringing in even seemingly difficult organisational changes. Many of these changes are not really structural changes but leadership and culture changes. These are the issues that we will discuss in the chapters that follow.

Summary by Learning Objectives

This chapter has dealt with an extremely important aspect of strategy implementation, i.e. structural implementation. Structure and systems constitute the first issue that strategists have to encounter in strategy implementation.

The key points covered in this chapter are as follows:

LO 1 *Interpret organisation structure from the perspective of strategy implementation*

- Structure in the context of strategic management is the way how tasks and sub-tasks required to implement a strategy are arranged. The relationship of structure and strategy creates its own special requirements that should be satisfied by the structure.
- Organisation structure is differentiated into vertical and horizontal structures. The vertical structure is designed primarily for exercising control by superiors over subordinates' work in the organisation. The horizontal structure is designed for coordination and collaboration of work among peers in the organisation. The challenging aspect of creating an organisation structure is that requirements for vertical and horizontal structures coexist at the same time.
- Stages of development theories help to explain how an organisation matures from simplicity to complexity in terms of structure. The life cycle of organisations could be divided into four stages that are not distinct and may overlap. The stages of development theories present a convenient way to understand the way how the structure may evolve as the organisation moves from one stage to the next.

LO 2 *Describe different forms of structures devised to implement strategies*

- There are several alternatives of structural designs that could be used to create an organisational structure. Six major forms of structures of entrepreneurial, functional, divisional, SBU, matrix, and network are available as basic building blocks of structure.
- Besides the traditional form of structures, there are several forms of emerging new forms of organisation structure such as the horizontal organisation, delaminated matrices, boundary-less organisation, and modular organisation.
- Contingency theories explain much of the diversity of organisational forms. The classification of organisational structures into mechanistic and organic is quite popular.
- An emerging strand of organisational structure is that of establishing horizontal relationships with other organisations to tackle increasing environmental complexity and uncertainty. This trend of establishing horizontal relationships across organisation is called inter-organisational relationships.

LO 3 *Review the subject matter of organisation design and organisational change*

- Organisation design is based on the key activities derived out of the mission and objectives. Five steps required for organisation design are identifying key activities, grouping of similar activities that need a common set of skills to be performed, choice of structure that could accommodate the different groups of activities, creation of departments, divisions, etc., to which the group of activities could be assigned, and establishing interrelationship between different departments for the purpose of coordination and communication.

- The purpose of organisation design is to create the right structure that fits the requirements of strategy to be implemented. It is an extremely difficult proposition to decide which form of structure would satisfy the requirements of a particular strategy.
- Organisation design has two dimensions: structural dimensions describe the internal characteristics of an organisation, and contextual dimensions describe the organisational setting that influences and shapes the structural dimensions.
- Organisational change takes place along two broad dimensions: the structural changes and the accompanying behavioural changes. All organisations make changes in their strategies, structure, and administrative procedures from time to time.
- Significant changes in thinking related to organisation structural design have been taking place worldwide and is impacting Indian companies too. Some of the major ideas in this context are of restructuring, reorganisation, reengineering, delayering, and flatter structures.

LO 4 *Relate changes in structures to changes in strategy*

- Strategy determines the structure in a major way. It does this by providing the necessary infrastructure and administrative mechanisms that enable implementation of the chosen strategy. The structure conversely impacts the strategy but to a lesser extent.
- There is a relationship between the environment, strategy, and structure. Changing environment impacts strategy which, in turn, determines the form of structure to have. We have taken a position that strategy and structure affect each other though the forward impact is more visible. Structure and strategy have a two-way, reciprocal relationship. The relationship between strategy and structure is spanned by environment in one direction and effectiveness in the other.

LO 5 *Identify the structures used for implementing corporate and business strategies*

- Business strategies of cost leadership, differentiation, and focus strategies create a different set of requirements and thus require a different organisation design with different structural arrangement. A cost leadership strategy would require an efficiency approach to organisation design. A differentiation strategy would require a learning approach to organisation design. A focus strategy would require similar structural arrangements with varying emphasis.
- Different types of corporate strategies may require different forms of organisation structures to suit their requirements. We discussed several forms of organisation structures for different corporate strategies. Structures for integration and diversification strategies are usually multidivisional and SBU structures. Different types of internationalisation strategies create their own requirements for organisation design and structure.

LO 6 *Recognise the role of organisational systems in implementing strategies*

- An organisational system is a set of interacting elements devised to accomplish a process. An organisational process is a series of actions undertaken to achieve a predetermined result. The three systems that we selected in the chapter to illustrate how the systems and processes are managed are: information, control, and reward systems.
- Organisational systems like information, control, appraisal, motivation, development, and planning form the core of any structure. Each of these systems plays a significant role in strategy implementation. Their design has to come from a consideration of the requirements of the strategy being implemented. In implementation, these systems have to be changed to suit the requirements of a new or modified strategy.

While structural implementation deals with the structure and systems there is another related dimension that concerns the concomitant behavioural modifications that are essential to absorb the impact of organisational changes. The next step in the strategy implementation of behavioural implementation is the subject matter of the next chapter.

EXERCISE

Short-answer Questions

1. How does a strategist perceive the organisational structure? **(LO 1)**
2. Distinguish between vertical and horizontal structures. **(LO 1)**
3. Differentiate between tall and flat structures. **(LO 1)**
4. Enumerate the different structural mechanisms required to implement a strategy. **(LO 1)**
5. How does strategy affect structure? **(LO 1)**
6. Through what different stages does organisation evolve? **(LO 1)**
7. Point out a few situations where the following structure could be appropriate: (a) entrepreneurial structure (b) functional structure (c) divisional structure (d) SBU structure (e) matrix structure (f) network structure? **(LO 2)**
8. How is a product-based structure different from a customer-based structure? **(LO 2)**
9. Mention the forms of structures used to create and maintain inter-organisational relationships. **(LO 2)**
10. Mention the steps followed in organisational design. **(LO 3)**
11. How do structural changes differ from behavioural changes? **(LO 3)**
12. How is the relationship between structure and strategy a two-way relationship? **(LO 4)**
13. How are the four concepts of environment, strategy, structure, and effectiveness related? **(LO 4)**
14. Point out the characteristics of organisation structure that could suit the requirements of a differentiation business strategy. **(LO 5)**
15. What are the features of organisation structure used to implement diversification strategies? **(LO 5)**
16. What changes do you anticipate in the information system of an organisation that shifts from the stability to expansion strategy? **(LO 6)**
17. Formal controls will suit which type of strategy better? Informal controls? **(LO 6)**
18. What role do incentives play in strategy implementation? **(LO 6)**
19. How does organisational inertia prevent an organisation from responding effectively to adapt its organisation structure to the changing requirements of its strategies? **(LO 6)**

Assurance of Learning Exercises

1. Describe the manner in which structural mechanisms operate in an organisation. **(LO 1)**
2. Discuss the implications for structure if organisational growth is viewed in terms of stages of development. **(LO 1)**
3. Discuss the major structures that could be used as building blocks in creating an organisational structure. Mention some of the major advantages and disadvantages of each form of structure discussed from the viewpoint of strategy implementation. **(LO 2)**
4. Write a descriptive note on the emerging forms of organisational structures. **(LO 2)**
5. Build up arguments to support the proposition that the purpose of organisation design is to create structures that fit the requirements of strategies to be implemented. **(LO 3)**
6. Describe how does an organisation design evolve and subsequently how do organisational changes takes place in response to the changing requirements of strategies being implemented. **(LO 3)**
7. Write an argumentative essay on the theme: structure follows strategy. **(LO 4)**
8. The business environment for an organisation is increasingly becoming complex and uncertain. What impact is this development likely to have on the structure of such an organisation? **(LO 4)**
9. Discuss the salient features of structures for the business strategies of cost leadership, differentiation, and focus. **(LO 5)**
10. Describe the characteristics of structures for different types of corporate strategies. **(LO 5)**
11. Review some texts in the area of international business in your library. Find out what form of structures do international companies use. List the advantages and disadvantages of these structures. **(LO 5)**
12. The CEO of a major bank in India has this to say: 'I know that reorganisation, as a part of the strategic exercise, leading to voluntary retirement schemes (VRS) is imperative in the prevailing business and economic environment. But I wonder what will happen to our bank if most of our best managers choose to opt for the VRS and leave for greener pastures.' Analyse the statement and bring out the dilemma inherent in the situation. What should be done to resolve the dilemma? **(LO 1, LO 3)**

13. A non-resident Indian (NRI) wishes to invest in the country and plans to set up an industrial unit in a high- growth, high-technology industry. How should he go about designing the organisational structure for his company? After a few years he plans to diversify into unrelated areas. Now how should he initiate organisational changes so that the company structure is in line with strategic changes? **(LO 2, LO 3, LO 4)**
14. Discuss the importance of strategic changes for the following organisational systems (a) information; (b) control; (c) reward. **(LO 6)**
15. The application of IT in management is playing a significant role in internal structuring of organisations in India. Analyse the implications of IT on the organisation structure and propose how a company should go about organisational restructuring so that an effective structure emerges. **(LO 6)**

Review Case

THE STORY OF SYNERGOS UNFOLDS*

Synergos** is a young management and strategy consulting firm based at Mumbai. It was established in 1992, at a time when there were a lot of expectations among the industry people from the liberalisation policies that were started the previous year by the Government of India.

The consulting firm is an entrepreneurial venture started by Urmish Patel, a dynamic person who worked with a multinational consulting firm at the time. He left his comfortable position there to venture into the management consultancy industry. The motivation was to be 'the master of his own destiny' rather than being an employee working for others. Urmish comes from an upper middle-class Gujarati family settled at a small town in Rajasthan. His father was a government servant who retired with a meagre pension. His mother is a housewife. His other siblings are all educated and well-settled in their respective careers and professions. Urmish is a creative individual and is uncomfortable with the status-quo. During his student days at a college at Jaipur he was continually coming up with bright ideas that some of his friends found to be preposterous. To him, however, these were perfectly achievable ideas. He studied biotechnology and then went to the US on a scholarship to do his Masters. After a semester at a well-known university there, he lost interest and switched to pursue MBA. He liked it and soon settled down to work with an American consultancy firm and toured several countries on varied assignments during the 7 years he worked there.

In 1992, came the urge to Urmish to chuck his job and be on his own. It was a risky, yet an exciting, step to take. His accumulated capital was limited just enough to rent office space, buy a few computers, and hire an assistant. There were no consultancy assignments for the first 3 months. But an acquaintance soon came to his aid, introducing him to the CFO of a major family business group who needed advice on a performance improvement project they wanted to launch. The opportunity came in handy though the returns were nothing to write home about. That project was the first step to many more that came gradually. Synergos started gaining presence in the competitive management consultancy industry and attracting attention from the people whom they worked for. Word-of-the-mouth publicity led them from one project to another for the first 3 years till 1995. Synergos took up whatever came its way delivering a cost-effective solution to its clients. A team of four had formed by now each member of the team specialising in services rendered to the clients. For instance, one of the members is a specialist in engineering projects

**Synergos is a hypothetical organisation though the case could be realistic. The material is based on the generally accepted conventions in the consultancy industry and the reading experience of the authors of this book.

while another has expertise in finance. The third one is a service sector specialist also having experience in dealing with government matters.

The phase of rapid growth started some time in 1995 when the Synergos team decided to focus on the small- and medium enterprises (SMEs). These were firms that realised they had problems needing specialist advice but were apprehensive to approach the big firms on account of their limited outlay and inexperience of dealing with such firms. Synergos came to their aid by tailoring their services as near as possible to their needs. Another differentiation platform Synergos offered to its client was a fully-integrated consultancy service where it got involved right from the stage of planning down to its implementation and monitoring.

Presently, Synergos has grown to be a medium-sized consultancy firm serving clients in India and abroad working for industries ranging from auto components to financial services and for manufacturing organisations to service providers. Somehow, nearly half of the assignments it has worked on have been for mid-sized, upcoming, family-owned businesses—a niche it has served well. These organisations typically need a boutique sort of consultancy that can offer customised services dealing with a broad range of practices related to strategy, organisation design, M&A, and operational matters such as logistics and supply-chain management. Synergos fits in with their requirement owing to its personalised service and reasonable commission structure.

The organisational structure at Synergos has a board at the top consisting of seven people including the four founding members and three independent directors. One of the independent directors is the chairman of the board. Urmish, as the founder CEO, also heads an executive management committee with each of the founding members leading three other top-level committees dealing with business portfolio, service management, and executive recruitment.

The management team is called the professional group. The rest of the employees are referred to as the staff. The professional group has young women and men who are graduates of the some of the best institutions in India and abroad. They are assigned to task forces based on their qualifications, experience, and interests. The departments at Synergos are flexible and are based on interplay of three categories: skill, service, and specialty. For instance, a professional may have IT skills, may have worked to provide supply-chain management services, and developed expertise in handling operational assignments for medium-sized food and beverage firms. There is a lot of multitasking, however, to utilise the wide range of skills and special expertise that the professionals have. For administrative matters, the professionals are assigned to client-service departments of industry solutions, enterprise solutions, and technology solutions. The flexibility that such an organisational arrangement affords seems to have been the major reason for the evolution of the organisation structure at Synergos over the years.

The staff group of employees consists of the support people who provide a variety of services to the professionals. Among these are research assistants, industry analysts, documentation experts and secretarial staff. There is no set pattern for assignment of staff to the administrative departments and generally a need-based approach is followed depending on the workload at a particular time.

Recruitment for professionals is stringent. Synergos typically looks for a good combination of education and experience and lays much emphasis on the compatibility of the prospective employee with shared values. Creativity, broad range of professional interests, intellectual acumen, team-working, and physical fitness to undertake demanding tasks and work for long hours are the criteria for hiring. There are not many training opportunities except on-the-job learning. New professionals are assigned to a mentor for some time till they are ready to handle assignments autonomously. The staff members are usually recruited from among fresh graduates with good degrees from reputed institutions in arts, sciences, and commerce. The staff positions are also open for persons wanting to work on part-time or project-bases. Emphasis is given to the ability of the prospective staff to undertake multitasking and work with documentation and word processing and presentation software packages.

The compensation system consists of a base salary with commission and bonus depending on performance. There are other usual elements such as medical reimbursement, loan facility, and gratuity and retirement benefits. Performance appraisal is informal with at least one of the four founding members being part of the evaluation committee for a professional. Usually, the founding member closest to the work area of the employee is involved in determining the rewards to be given. The time-cycle for appraisal is 1 year. Management control is discreet and performance-based rather than behaviour-based. The means for control are informal such as direct supervision.

Urmish is a strong proponent of the emergent strategy and is not in favour of tying Synergos to a fixed strategic posture. So are the other founder members though at times they do talk about deciding on a niche such as the SME organisations as clients and enterprise solutions as the core competence. In the highly fragmented consultancy industry where it is possible for even one person to set up an office in a commercial area and leverage connections to secure projects, Synergos is open to opportunities as they emerge while trying to maintain the flexibility that has made it successful till now.

Questions

1. Identify the form of organisation structure being used at Synergos and explain how it works. What are the benefits of using this form of structure? What are the pitfalls? **(LO 2)**
2. Express your opinion whether the structure is in line with the requirements of the strategy that Synergos is implementing. **(LO 1, LO 4)**
3. Based on the information related to the information, control, and reward systems available in the case examine whether these systems are appropriate for the type of strategy being implemented. **(LO 6)**

Notes and References

1. NTPC website at *http://www.ntpc.co.in/*; Annual Report 2013-2014 at *http://www.ntpc.co.in/annual-reports/2013-14/NTPC-AR-2013-14.pdf*; Result-Framework document 2014-2015 for Ministry of Power at *http://powermin.nic.in/whats_new/pdf/RFD_of_Ministry_of_Power_2014_15.pdf*; 'NTPC Issues Second EOI for Acquisition, Ready to Invest Rs 5,000 crore' at *http://www.business-standard.com/article/companies/ntpc-issues-second-eoi-for-acquisition-ready-to-invest-rs-5-000-cr-114121600778_1.html*. All websites retrieved 27 December, 2014.
2. J. Child, *Organization* (New York: Harper & Row, 1984).
3. A.D. Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, Mass: MTP Press, 1962).
4. M.S. Salter, 'Stages of Corporate Development,' *Journal of Business Policy* (Spring 1970): 23–27.
5. D. H. Thain, 'Stages of Corporate Development,' *The Business Quarterly* (Winter, 1969): 32–45.
6. B.R. Scott, 'The Industrial State: Old myths and New Realities,' *Harvard Business Review,* (March–April, 1973): 133–48.
7. H.C. Bartlett, *Cases in Strategic Management for Business* (New York: The Dryden Press, 1988): 58.
8. A. Sharplin, *Strategic Management* (New York: McGraw-Hill, 1985): 6.
9. J.G. March, 'The Future Disposable Organizations and the Rigidities of Imagination,' *Organization* (August–November, 1995): 434.
10. T. J. Newton, 'Creating the New Ecological Order: Elias and Actor-Network Theory,' *Academy of Management Review,* 27 (2002): 523–40.
11. A. Miller and G.G. Dess, *Strategic Management,* 2nd ed. (McGraw-Hill, New York, 1996): 421–27.
12. A. Lam, *Organizational Innovation,* BSBM Working Papers, 1, no. 3, (2004), (Special issue BRESE, Brunel Business School, Uxbridge).
13. T. Burns and G. Stalker, *The Management of Innovation* (London: Tavistock, 1961).
14. M. Tushman and C. O'Reilly III, 'Ambidextrous Organizations: Managing Evolutionary and Revolutionary Change,' *California Management Review,* 38, no. 4 (1996): 8–30.
15. R.L. Daft, *Organization Theory and Design* Mason (Ohio: South-Western, 2004): 172.
16. *Ibid.*
17. M. Castells, *The Rise of the Network Society* (Cambridge, MA: Blackwell, 1996).
18. K. Moller, A. Rajala, and S. Svahn, 'Strategic Business Nets: Their Types and Management,' *Journal of Business Research,* 58, no. 9 (September, 2005): 1274–84.

19. A detailed description of the dimensions and sub-dimensions of organization design is available in R.L. Daft, *Understanding the Theory and Design of Organizations*, 10th ed. (Stamford, CT: South-Western/ Cengage Learning, 2010): 15–17.
20. M. Hammer and J. Champy, *Reengineering the Corporation* (New York: Harper Collins, 1995)
21. 'Indian Aluminium Company Limited,' in S.B. Budhiraja and M.B. Athreya, *Cases in Strategic Management* (New Delhi: Tata McGraw-Hill, 1996): 257–59.
22. 'NIIT's Ambitious Growth Plan—'Fast Forward' - Seeks Rs. 10,000 crore Mark by 2006,' at *http://www.niit.com/niit/ContentAdmin/NWS/NWSPR/NWSPR2/34.html*. Retrieved 9 February, 2008.
23. See 'Bharti Airtel Announces New Organisation Structure for its India and South Asia Operations,' at *http://www.airtel.in/about-bharti/media-centre/bharti-airtel-news/corporate/pg-bharti-airtel-announces-new-organisation-structure-for+-its-india-and-south-asia-operations*. Retrieved 25 October, 2014.
24. A.D. Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*, (Cambridge, Mass: MTP Press, 1962).
25. 'Bajaj Allianz Aims High'*domain-B.com* (13 October, 2004) available at *http://www.domain-b.com/finance/insurance/allianz_bajaj_life/20041013_aims.html*. Retrieved 14 October, 2007.
26. J. Child, 'Organisational Structure, Environment, and Performance: The Role of Strategic Choice,' *Sociology*(January.1972): 1–22.
27. S. Kajalo, R. Rajala, and M. Westerlund, 'Approaches to Strategic Alignment of Business and Information Systems: A Study on Application Service Acquisitions,' *Journal of Systems and Information Technology,* 9, no. 2 (2007): 155–66.
28. R. Sankar, 'Managing Employee Expectations,' *Business Today* (5 November, 2006): 86.
29. K.M. Bartol and A. Srivastava, 'Encouraging Knowledge Sharing: The Role of Organizational Reward Systems,'*Journal of Leadership & Organizational Studies,* 9, no. 1 (2002): 64–76.
30. C.R. Christensen, K.R. Andrews, J.L. Bower, R. G. Hamermesh,and M.E. Porter,*Business Policy: Text and Cases*, 5th ed. (Homewood, Ill.: Richard D. Irwin, 1982): 640.
31. D. F. Abell, *Managing with Dual Strategies: Mastering the Present, Preempting the Future* (New York: The Free Press, 1993).

12
CHAPTER

Behavioural Implementation

Learning Objectives

After reading this chapter you should be able to:

LO 1 Review the tasks, skills, styles, roles, and development of strategic leaders of an organisation
LO 2 Identify the role of corporate politics and use of power in strategic management of an organisation
LO 3 Recognise the role of corporate culture in strategy management
LO 4 Describe the contribution of corporate ethics and personal values in strategic management

Chapter Outline

Preview Case

SIEMENS INDIA POWERS UP ITS BEHAVIOURAL IMPLEMENTATION[*]

On 1 August, 2013, 56-year-old Joe Kaeser, Chief Financial Officer (CFO) of the Germany-based Siemens AG assumed charge as the President and Chief Executive Officer (CEO) of Siemens AG. On a visit to India as CFO, he opined that Siemens had invested heavily in India in the past few years and it was time to optimise productivity and capacity. The growth of Siemens India was the path to profitability, he added. Sunil Mathur took over as managing director (MD) and CEO of Siemens India from Armin Bruck in January, 2014. Mathur is the first Indian CEO of Siemens India and has risen from the ranks. He has been with the company for 25 years.

Siemens, headquartered in Germany, is one of the largest technology companies employing about 3,43,000 employees around the world. Its fiscal 2014 revenue stands at around €72 billion with net income of €5.5 billion deriving 85 per cent of its revenues from outside Germany. Its Vision 2020 aspiration is expressed in its mission of 'We make real what matters'. It looks to position itself along the electrification value chain extending from power generation through transmission, distribution, smart grid to application of electrical energy through automation and digitalisation. It has set long-term goals in seven areas: implementing stringent corporate governance; creating value sustainably; executing financial target system, expanding global management; being a partner of choice for customers; being an employer of choice; and fostering an ownership culture.

Siemens has a long history in India starting from setting up the first telegraph line connecting Kolkata (then, Calcutta) with London in 1867. Siemens India was set up in 1922 and is headquartered at Mumbai. In 1959, it made medical equipment, in 1966, electrical motors, in 1987, electronic equipment, and in 2004, set up the corporate technology centre. In 2009, the SMART (simple-to-use, easy-to-maintain, affordable, reliable, and timely products) strategy was launched to make cheap products in India and the divisions for infrastructure, urban projects and financial services were started in 2011. Until the 1990s, majority of products were sourced from Germany.

Things began to change after India started liberalisation in 1991. The entry of formidable competitors like ABB and Schneider also intensified competition that was already tough with General Electric (GE) in the field. Rapid expansion took its toll and in 1997 Siemens India posted a huge loss. Turnaround, consisting of retrenchment and closing down of factories, took 18 months to return to profitability. By then, the company realised it had to design, develop, and manufacture products locally to survive competition that increasingly came from Indian companies such as Crompton Greaves and Thermax. By 2012, Siemens India faced a drop in net profit to just Rs. 343 crore on a revenue of Rs. 12,920 crore. The focus shifted to gaining market share, controlling costs, and protecting the bottom line.

Siemens India has 17 manufacturing plants located across seven states of India. It serves Bhutan, Nepal, and Sri Lanka and supports Bangladesh from the India headquarters. Siemens India's revenue for 2013–14 was Rs. 111.5 billion and net profit above Rs 6 billion. The employee strength was 11,000 personnel. Beginning October, 2014, the company has eliminated sectors and reorganised into eight divisions: power and gas, power generation services, energy management, mobility, building technologies, digital factory, process industries and drives, and healthcare. The new organisation with a flatterstructure is aimed at increasing proximity to customers.

Siemens India's board of director has 12 members led by Deepak Parekh as the Chairman. Sunil Mathur is the MD and CEO and Christian Rummel is the executive director (ED) and CFO. As a part of global administrative changes within Siemens, one layer of administration has been removed and members of global management board have been put in charge of all business units in a region.

German corporate culture is generally perceived as emphasising professionalism, loyalty, sticking to deadlines, delivering high quality, unambiguous communication style, and fair dealings. Some of these values may have permeated its Indian subsidiary too. Corporate culture at Siemens India faces a dilemma. The major cultural change Siemens India had seen in recent times is to change from a customer-centric organisation to an employee-centric one in its attempt to reduce attrition rates from 13 per cent in 2007 to 5 per cent in 2011. Siemens Global has an attrition rate of 9 per cent in 2014, an improvement from 10.8 per cent in 2013. Another change for Siemens Global is to focus more on its India unit that contributes only 2.5 per cent to global revenues but is seen to have much greater potential. But, on the other hand, there is added emphasis on being customer-centric as a part of the turnaround strategy underway. It is to be seen how Siemens India is able to face the challenge of dealing with this cultural dilemma and keep its focus on turning around the company.

Corporate business ethics and values at Siemens India are sustained through a company wide effort. At the apex there is a sustainability council with sustainability work groups within the business sectors. A sustainability officer is appointed to oversee the sustainability activities. The CEO reviews sustainability performance every 6 months. The business responsibility initiatives are reviewed by the corporate governance committee of directors. Siemens India has been bringing out a business responsibility report since 2013 complying with the statutory requirements. There are a set of business conduct guidelines for ensuring ethical behaviour. These deal with the requirements of legal compliance, bribery and corruption, human rights, health and safety, and environment protection. The Code of Conduct for suppliers prohibits child labour and health and safety of their employees. The channel partners are required to adhere to a Code of Conduct for channel partners. There do not seem to be unsavoury references in the media to Siemens India but its global parent has been involved in a suspected bribery case to the tune of €1.3 billion paid over years to win contracts around the world and was the subject of a criminal trial taking place in Germany during 2006–08. The company barely survived the scandal until an outsider, CEO Peter Löscher; an Austrian nursed it back to health.

At the global level, Siemens is involved in implementing its Vision 2020 through several strategic and structural changes. It is focusing on new growth areas of digitalisation, electrification, and automation. Operationally, the company is introducing new technologies, enhancing customer engagement and putting in place cost controls. The company has a glorious past, but its current state, like many of the capital goods sector companies, has been impacted by the slowdown. Sunil Mathur has to see through the changes at the India level and return his long-term employer to its former glory.[1]

Organisations gain financial success through effective strategies. Behind the financial success of organisations such as Siemens India, that we presented in the preview case, operates the behaviour of strategists. The German multinational Siemens operates its subsidiary in India since 1922, much before our country became independent. The company has seen India grow and has grown with it. It plays an important role in many critical areas of business and industry in India. Within the company, there is strategic leadership guiding the destiny of the organisation, its corporate culture and the corporate ethics, and values shaping its behaviour and leading to actions. These are the issues that we look at in this chapter.

As we will see in this chapter, the behaviour of the strategist in guiding the organisation to success is crucial. The range of issues that we intend to discuss in this chapter relate to the behaviour of the strategists. While doing so, we will consider the strategists' behaviour as individuals as well as in groups. It might seem odd that a subject like strategic management that purportedly deals with the organisation as a whole should focus on the individual too. But this is understandable; while organisations may be assumed as taking strategic actions, it is the individuals and the groups of individuals actually who take them. Individuals and groups are responsible for driving an organisation towards achievement of objectives. So, individual-and group-focussed issues such as leadership style, personal ethics, and political behaviour become important.[2] An organisation's top managers play a crucial role in shaping its corporate culture. We will discuss all these behavioural issues of leadership, power and politics, culture, and ethics and personal values in strategy implementation in this chapter.

12.1 STRATEGIC LEADERSHIP

LO 1

Managers provide leadership to an organisation. Organisational leaders influence the behaviour of subordinates so that they, willingly and enthusiastically, work towards the achievement of organisational objectives. Strategic leaders manage the strategic management process that is designed to help the organisation achieve its objectives. Strategic leadership is the ability to lead an organisation towards achievement of its objectives. The tasks involved in exercising strategic leadership are typically to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary.[3]

Managers at the senior level of an organisation wield immense power and authority. They have the qualifications, training, experience, and disposition to use executive authority to make decisions. Those decisions affect the future of the organisation. Externally, they represent the organisation to other stakeholders. In this manner, strategic leaders shape the future of the organisation.[4]

The Strategic Leaders

In this section we will focus on the strategic leaders who are charged with the responsibility of managing the strategic management process of an organisation. Strategic leaders are the lynchpin in the strategic management process. Among the strategic leaders we have managers operating at different levels of an organisation: corporate-level, business-level, functional-level, and operational-level.

- Corporate-level managers include the CEO, senior executives, and the corporate staff. The corporate-level managers manage the strategic management process for the whole organisation. These managers may carry designations such as CEO, MD, ED, or President. The groups that exercise strategic leadership are board of directors and top management teams.
- Business-level managers are the strategic leaders at the business, division, or strategic business unit (SBU) levels. These managers manage the strategic management process at the business-level. These may carry designations such as the general manager (GM) or vice-president (VP).The groups that exercise strategic leadership at the business level include the executive and cross-functional teams.
- Functional-level managers are the strategic leaders of a specific function such as marketing or operations. They are called marketing manager or operations manager. The functional managers manage the strategic management process at the functional level. The groups that exercise strategic leadership at functional level are the functional teams.
- At the operational-level, there are managers who are responsible for the implementation of strategies within their assigned functional areas. They occupy positions such as deputy manager of marketing or assistant manager of operations. The groups that lead implementation efforts are departmental teams.

Let us start by discussing the tasks that strategic leaders are required to perform for effective strategic management of organisations.

The Tasks of Strategic Leaders

The phenomenon of leadership has been studied and researched extensively for a number of years in various disciplines besides management studies resulting in numerous theories and models.[5] One of the themes in leadership is the tasks that strategic leaders are called upon to perform. In the terminology of Dubin (1979), leadership at the highest levels of the organisation (i.e. strategic leadership) is concerned with performing the task of leadership *of* organisations rather than leadership *in* organisations. By leadership of organisations is meant those tasks that are performed by the top managers while leadership in organisations refers to supervisory management tasks performed by lower-level managers.[6] This is an important distinction between strategic leaders and other organisational leaders. Strategic leaders are at the higher levels of the organisation while organisational leaders are to be found anywhere. Organisational leadership is about the leader-follower relationship while strategic leadership is, in addition, a strategic and symbolic activity.[7] Since there is distinction between strategic leaders and other organisational leaders their respective tasks also differ.

There are many different ways in which the tasks of strategic leaders can be described. We present here the seven important tasks that strategic leaders typically are required to perform.[8]

- *Determining strategic direction:* One of the more crucial tasks of a strategic leader is to provide a sense of direction to the organisation. The strategic direction is concerned with the future shape of the organisation. The strategic direction has two components of core ideology and envisioned future. The core ideology of the organisation motivates the members through its heritage. The envisioned future requires tremendous efforts in order to be achieved.
- *Effectively managing the organisational resources portfolio:* Strategic leaders are called upon to manage effectively the portfolio of organisational resources. Such a portfolio includes financial capital, human capital, social capital, and organisational capital. They do this by exploiting and maintaining the core competences and developing the human and social capital of the organisation.
- *Sustaining an effective organisational culture*: The organisational (or corporate) culture of an organisation is an important factor in achieving strategic success. Strategic leaders try to build and sustain an effective organisational culture.
- *Emphasising ethical practices:* Strategic leaders emphasise on ethical practices in word and deed when the strategies are being implemented.
- *Establishing balanced organisational controls:* Strategic leaders use a combination of financial and non-financial controls to help the organisation achieve its objectives.
- *Building partnerships*: Strategic leaders exercise acumen to identify opportunities for establishing relationships, associations and consortia with external partners such as buyers, suppliers, and business partners.
- *Developing future strategic leaders:* Strategic leaders are responsible not only for the present but also the future of the organisations. Being visionaries, they need to groom organisational leaders to become the future strategic leaders.

The Skills of Strategic Leaders

Strategic leaders need skills to perform the tasks expected of them. As with the tasks, there is extensive literature on the skills that strategic leaders are required to demonstrate.

The following are six skills identified by a team of consultants:[9]

- *Anticipate:* Ability to look ahead by predicting competitor's moves and likely reactions by gathering information from a wide network ofexperts and people both inside and outside industry or function.
- *Challenge*: Ability to look at an issue from multiple angles and reframe problems to understand their real causes by soliciting diverse views.
- *Interpret:* Ability to demonstrate curiosity andan open mind so that conclusions are reached after testing multiple working hypotheses.
- *Decide:* Ability to balance long-term and short-term concerns while being able to determine trade-offs, risks, and unintended consequences for customers and other stakeholders when making decisions.
- *Align:* Ability to understand and address conflicting stakeholders' interests and their tolerance and motivation for change.
- *Learn:* Ability to promote organisational learning through communicating stories about success and failure and making mid-course corrections if needed.

The Styles of Strategic Leaders

'Style describes how top managers behave in leading and motivating their organisations to achieve their desired ends'.[10] The style adopted by a strategist relates to the basic leadership functions of leading and motivating.

The importance of leadership style is demonstrated by the fact that several of the leadership theories have been developed on the basis of two or more contrasting styles. From the 1939-classification by Kurt Lewin of the democratic, autocratic, and laissez-faire styles through the behavioural theories of leadership like the Ohio State University studies (initiating structures versus consideration styles) and the University of Michigan studies (job-centred and employee-centred styles) down to the relatively more recent Bass's framework of transactional and transformational styles, leadership is explained through two or more contrasting styles. In this sense, the theoretical approaches are based on a static formulation of style, and proposals are made to suggest an appropriate style of leadership.

Another major development in the theory of leadership is that of contingency approach. In this approach, the leadership style is related to the situation in which the leadership is exercised. An example of this is Fiedler's contingency theory of leadership that uses task and relationship motivation as the two ends of a continuum that determines the leadership style and the appropriateness of the style is determined by the situation.[11]

Among the contingency factors, the cultural/national context could be an important variable. In the Indian context, for instance, Sinha suggests that a purely authoritarian or a purely participative style may not be effective. Instead, he suggests a nurturant-task leadership style that could be more relevant in the Indian context. Nurturant-task leadership style has a combination of concern for tasks as well as subordinates, and is directive as well as paternalistic in approach.[12] Maheshwari studied the relationship between decision styles and organisational effectiveness in Indian organisations and reported that they are neither authoritarian nor participative but consultative with limited participation. Organisational effectiveness is positively related to entrepreneurial style as opposed to a bureaucratic style of decision making. With regard to policy implementation, Maheshwari suggests that external environment plays the most important role for success and internal dynamics and choice of decision styles should be used to build internal strengths.[13] An illustration of contemporary research into strategic leadership in the Indian context is provided by a study conducted by Korn/Ferry International in association with International Market Assessment India. Based on a survey of nearly 100 CEOs and CFOs, the study concludes that Indian corporate leaders demonstrated remarkably different leadership styles and emotional competencies from their western counterparts yet proved to be just as strategic in terms of their decision-making and thinking styles.[14]A comparative study on Chinese, Indian, and Western CEOs found that outstanding CEOs across cultures demonstrate common characteristics of results orientation/achievement drive and forward thinking. But there are also some distinctive competencies observed in particular cultures. Indian CEOs are more likely to display consideration of the welfare of their nation in business decision-making while their Chinese counterparts uniquely influence for mutual benefit as well as criticising themselves, and Western CEOs use interpersonal understanding and talent management.[15] The intriguing subject of leadership and leadership style continues to attract research attention around theworld as well as in India.[16]

From the preceding paragraphs, it is clear that there could be different leadership styles, there could be an appropriate style in general; and style could also be culture-specific, that is, there could be a participative style more suited to the western context and a nurturant-task or entrepreneurial style more suited to the Indian context.

Exhibit 12.1 Matching Leadership Style with Strategy

Waldersee and Griffiths in a journal article explore the issue of strategy—leadership styles in the context of implementing change. They adopt two broad types of change implementation: participative and unilateral. Participative change is done through the support of people by the means of behavioural-social interventions such as organisation development or sensitivity training. Unilateral changes are forced from top and implemented by the technical-structural means such as system and process redesign or administrative changes in terms of redefining authority and work rules.

Waldersee and Griffiths make several interesting observations, which are of interest to us here, in surveying the literature on change implementation:

- The strategy-style matching theory, as in Slater, 1989, is built on the premise that the effective implementation of a strategy requires a manager whose style has strengths consistent with the competencies required by the strategy.
- The key assumption in strategy-style matching is that the characteristics of the leader cause them to implement change in a particular way, and this needs to be matched to the type of strategic change being implemented.
- Strategy-style research has tried to link the personality characteristics of leaders to the business outcomes achieved. For instance, innovative ability may be linked to success in implementing differentiation business strategy.
- The present state of research in strategy-style match does not explicitly identify the implementation actions that flow from leadership style adopted. Rather, it is assumed that the personality and background of the managers cause implementation actions. Since personality and background cannot be changed, managers do not, and cannot, alter their behaviour to suit the requirements of a particular strategy.
- The strategy-style research does provide an indication of the potential importance of matching the type of change and implementation. For instance, it is found that the larger or more transformational the change, the more unilateral the change implementation should be adopted. For smaller changes, participative implementation can work better.
- When transformational changes take place, it may be better to adopt unilateral methods of implementation forcing the change from the top. Once these changes are in place, participative methods may be adopted to bring about the behavioural changes necessary to make the transformation work.

In our study of strategic management, we are aware that strategic changes are often transformational in nature. This means that they are big changes such as redesigning organisation structure, redesigning systems and processes, and changing culture. Unilateral methods of implementing change may require top managers to act decisively and initiate top-down actions that may cause the employee behaviour changes to follow. These changes can then be managed better through the participative methods to build up support for the change. It must be noted; however, that this is contrary to the generally-accepted idea that support of employees is necessary to bring about change. There is also inherent contradiction in the observation that leaders cannot modify their behaviours. If they cannot do so, then the question arises how participation methods can elicit behavioural changes among employees.

The present state of research in strategy-style match has a long tradition of research behind it. The literature survey, for instance in Hakonsonn,*et al.*, relates some of the developments in this field of study.

Source: R. Waldersee and A. Griffiths,'Implementing Change: Matching Implementation Methods and Change Type,'*Leadership & Organization Development Journal,* 25, no. 5 (2004): 424–34; and D.D. Hakonsonn, J. Lauridsen, B. Obel, and R. Burton,'How Misfits Between Leadership Style and Strategy Affects Performance,' Working Paper available at *http://www.lok.cbs.dk/images/publ/Dojbak%20Obel%20Burton%20og%20Lauridsen.pdf.* Retrieved 11 December, 2007.

From the viewpoint of strategic management, we are also interested in the relationship of strategy with the style adopted by a strategist. Questions such as these could be of our interest: can a particular strategy create a need for a specific style? If so, then how and why is this need created? How can the strategists adopt or adapt a leadership style suited to the requirements of a particular strategy? In other words, we are interested in the issue of matching of leadership style with strategy of the organisation.

The idea that a particular strategy creates special requirements in terms of leadership style is intuitively powerful. One can think of it as something natural that different strategies cannot be implemented by adopting similar leadership styles. The central premise in matching style with strategy is that effective implementation of a strategy requires a leader with a style that has characteristics consistent with the competencies required by the strategy.[17] In other words, a strategy creates certain competency requirements that should be fulfilled by the leadership style adopted. If this is done, then there is a higher likelihood of strategy being effective. There does not seem to be research available in the Indian context except that by Khandwalla who attempted to relate management styles, the environment (and strategy), and organisational effectiveness and demonstrated that when management style is matched with the environment (and strategy) the firm is more effective than when management style does not match the environment.[18] Exhibit 12.1 presents some important contemporary theoretical contributions on the issue of matching style with strategy.

The Roles of Strategic Leaders

Further we will take up the discussion of the role that the strategic leaders play in strategic management. It would be in the fitness of things to start with the most important strategic leader in an organisation, the CEO.

Role of the CEO In their book titled *In Search of Excellence,* Peter and Waterman observed that 'associated with almost every excellent company was a strong leader (or two) who seemed to have had a lot to do with making the company excellent in the first place.[19] The role of the CEO is evident through all the phases of the process of strategic management. As the chief strategist, the CEO plays a major role in strategic decision-making. He or she is the person who is chiefly responsible for the execution of functions which are of strategic importance to the organisation. In other words, a CEO performs the strategic tasks—actions which are necessary to provide a direction to the organisation so that it achieves its purpose. He plays a pivotal role in setting the mission of the organisations, deciding the objectives and goals, formulating and implementing the strategy and, in general, seeing to it that organisation does not deviate from its predetermined path designed to move it from the position it is in to where it wants to be. In short, a CEO is primarily responsible for all aspects of the strategic management of the organisation.

Due to the importance assigned to the CEO, many authors and researchers have attempted to define their roles, functions, and responsibilities. This is understandable since the CEO of an organisations play the most crucial role in determining whether an organisation is successful or not.

Defining roles theoretically: Owing to the primacy attached to the chief executives many authors, researchers, and practitioners have attempted to study their roles. The different approaches adopted to study the roles of CEOs may be broadly classified into two categories: the role modelling approaches and the other approaches.

1. The role modelling approaches attempt to describe the CEO in terms of the different roles that they play in organisations. For instance, a CEO may be considered as:
   - chief architect of organisational purpose, strategist, or planner;
   - organisation leader, organiser, or organisation builder;
   - chief administrator, implementer, or coordinator; and
   - communicator of organisational purpose, motivator, personal leader, or mentor.

Some of the authors and researchers who have adopted this approach are: Fayol (1949), Mintzberg (1973), Christensen (1982), Glueck (1984), and Bourgeois and Brodwin (1984).

2. The other approaches, directly or indirectly, attempt to describe the role of CEOs in terms of different parameters like:
   - how do they spend time;
   - their personal qualities and personality traits;
   - their communication styles;
   - their demographic characteristic such as age, intelligence, education, functional background, experience, etc.;
   - the level of their emotional intelligence
   - managerial values they hold;
   - their managerial styles; and
   - the environment they operate in.

Some of the authors and researchers who have adopted these approaches are Mintzberg (1980), Drucker (1963), Sloan (1979), Levinson (1980), Miner (1973), England(1973), Peters and Waterman (1982), and Khandwalla (1977).

Defining in-practice roles: Many practitioners, a few of them CEOs themselves, have described their experiences which are helpful in understanding the different roles that CEOs play in organisations. Among these, some of the important ones are: Chester Barnard (1938), Henri Fayol (1949), Alfred P. Sloan Jr. (1965), Kenichi Ohmae (1982), K. Matsushita (1986), Eiji Toyoda (1987), and Jack Welch (2001). There are a few books written in the Indian context which offer an insight into the roles of CEOs. As illustrations, we could name: *Keynote* by J.R.D. Tata, *Return to Punjab:1961-1975* by Prakash Tandon, *OIL and Other Multinationals* by M.S. Patwardhan, *Bite the Bullet: Thirty-Four Years with ITC* by AjitHaksar, *The Dynamics of a Tradition: Kasturbhai Lalbhai and his Entrepreneurship* by Dwijendera Tripathi, *India's Industrialists* by Gita Piramal and Margaret Herdeck, and *The Indian CEO: A Portrait of Excellence* by Hay Group, UK, *Dhirubhai Ambani : See Dreams—and with Courage Realise them* by Chetan Prakash Sharma and *Brushes with History – An Autobiography* by K. K. Birla. The tradition of writing biographies, autobiographies, and hagiographies in India continues.

Role of Senior Managers The senior (or top) management consists of managers at the highest level of the managerial hierarchy. Starting below the chief executive to the level of functional or profit centre heads, these managers are involved in various aspects of strategic management. Some of the members of the senior management act as directors on the board usually on a rotational basis. All of them serve on different top-level committees set up by the board to look after matters of strategic importance and other policy issues. Executive committees consisting of senior managers are responsible for implementing strategies and plans, and for periodic evaluation of performance. Ad hoc committees formed to deal with new projects have senior managers as project managers. When assigned specific responsibilities, senior managers look after modernisation, technology upgradation, diversification and expansion plan implementation, and new product development. On the whole, senior managers perform a variety of roles by assisting the board and the chief executive in the formulation, implementation, and evaluation of strategy. Organisationally, they come together in the form of different types of committees, task forces, work groups, think tanks, management teams and the like to play a very important role in strategic management.

Role of Business-Level Executives The rationale for organising structure according to the SBUs is to manage a diversified company as a portfolio of businesses; each business having a clearly defined product-market segment and a unique strategy. The role that the business-level executives play is important in strategic management. The business-level executives, also known as either profit centre or divisional heads are considered as chief executives of a specific business unit for the purpose of strategic management. In practice, however, the concept of SBU is adapted to suit traditions, shared facilities and distributions channels, and manpower constraints of an organisation. A business-level executive wields considerable authority within the SBU while maintaining coordination with the other SBUs in the organisation.

With regard to strategic management, the business-level strategy formulation and implementation are the primary responsibilities of the business-level executives. Many public and private sector companies have adopted the SBU concept in some or the other form. There are several organisations in India that have myriad businesses under their corporate umbrella. Each of these businesses has its own CEO who is given substantial authority and responsibility for the SBU under his charge. Sometimes, there could even be separate management boards and strategic planning cells to formulate business strategy proposals and review performance of these SBUs.

Role of Functional and Operational Managers The major functions of the functional and operational managers, also called the middle-level managers, relate to functional and operational matters and, therefore, they rarely play an active role in higher-level strategic management. They may, at best, be involved as 'sounding boards' for departmental and operational plans, as implementers of decision taken by corporate- and business-level managers, followers of policy guidelines, and passive receivers of communication of functional strategic plans. Basically involved in the implementation of functional and operational strategies, the middle-level managers are rarely employed for other purposes in strategic management. This does not, however, preclude the possibility of using their expertise. There are many instances that show that managers and assistant managers can also contribute to the generation of ideas, development of strategic alternatives, refinement of business, functional and development plans, target-setting at departmental levels, and for various other purposes. The importance of middle management cadres lies in the fact that they form the reservoir of talent and expertise for developing future strategists for the organisation.

Developing Strategic Leaders

Like other personnel, strategists have to be developed before they can take up the onerous responsibilities of strategy formulation and implementation. One of the responsibilities of the board of directors and top management of an organisation is to oversee the development of strategists. The different ways in which strategic leaders are developed vary across organisations.[20] There are three issues that we will discuss in the context of developing strategic leaders: the choice of future strategists, their career planning and development, and succession planning.

The choice of future strategists: Choosing future strategic leaders is a matter of great concern as the future of the organisations depends on this crucial decision. Organisations in India in the public sector enterprises, multinational, family-owned, and professionally-managed private companies, and in non-governmental organizations (NGOs) differ in their policies and practices with regard to developing strategic leaders. In the government, the officers of the central and state administrative services handle the public sector enterprises though professionals outside the government system too are increasingly being encouraged to take up top positions. In the family-owned private sector companies the family members are chosen while professionally-managed and multinational companies (MNCs) choose the strategists on a competitive basis relying on a mix of experience and merit. Generally, talented individuals are spotted early in their careers to be groomed for top positions. For instance, professionally-managed Tata group of companies has since the 1950s relied on the Tata Administrative Services (TAS), conceived by J.R.D. Tata, to pick up senior managers. Several of the CEOs of Tata group of companies come from this service. But practices varied in the past when informal means were adopted. Sumant Mulgaokar, who was the chairman of Tata Engineering and Locomotive Company (TELCO), adopted an informal practice of choosing the senior cadre of managers. Being a great judge of character, Moolgaokar—would choose potential managers from among the junior ranks, give them onerous responsibilities, keep them under strict supervision, and reward them with top positions if they were found suitable.[21] Exhibit 12.2 presents insights into the means being used by Indian companies to develop strategic leaders.

Exhibit 12.2 Developing Strategic Leaders in India

Shortage of CEOs and senior managers is a perennial challenge faced not only in India but around the world. The present position in India of acute shortage is owing to several reasons: the fast-growing economy is creating higher demand for senior managers; attrition at the middle- and senior-levels dries up the reservoir that provide senior managers; and many senior managers decide to take early retirements to become entrepreneurs. Executive search consultancy firms regularly forecast severe shortages of personnel to fill up senior positions. There is also a view that most Indian companies are ill-prepared for handling succession issues.

Human resource professionals suggest three options to deal with the acute shortage of personnel for top positions: hire laterally from rival companies by luring away executives by better compensation packages; use succession planning to groom strategic leaders internally; and adopt a combination of the best of both these approaches of hiring competent people and grooming them for leadership or hiring leaders and grooming them for competences. Indian companies are using a combination of these approaches depending on the types of companies and industries.

The fast-growing companies in sunrise industries adopt the first approach of hiring laterally possibly because they do not have the time or patience needed for grooming strategic leaders through succession planning. This approach may work in the short-term but create problems of adjustment in the long-run as external personnel taking charge at senior positions may not be able to understand the culture of the organisation.

Systematic career planning and development and succession planning may take place in stable organisations such as the Tata group of companies that relies on TAS for senior managers. But even in the Tata companies, foreign acquisitions have forced them to appoint CEOs sourced from foreign companies rather than through their internal sources. Multinational companies such as Hindustan Unilever (HUL) and professionally-managed groups such as the R.P. Goenka (RPG) group and Mahindra group rely on grooming strategic leaders internally. Generally, the MNCs have a more meticulous approach to succession planning. In family-owned organisations, the succession planning may not be a big issue as the senior positions automatically go to the sons and in some cases to daughters too. But even here it is not as if the top positions are handed to them on a platter. The heirs have often to undergo a trial by fire to prove that they are fit to handle the top jobs. Family-owned organisations such as Ambani, Bajaj, and Murugappa are headed by family members who have gone through the grind before being appointed to top positions. In some cases, however, family conflicts do occur when thereis more than one heir contending for a top position.One welcome repercussion of the fast-growing Indian economy has been the rapid rise of young managers to top positions in organisations. There are problem here too as these young managers may face resentment from more senior colleagues who are ignored for promotions.

Despite so many different ways of hiring and grooming talented personnel for senior positions ultimately what matters is to present challenges to people that fulfil their aspirations, expose them to quality thinking, offer scope for intellectual development and provide empowerment. Stronger corporate governance mechanisms are also likely to strengthen the board of directors' position vis-à-vis the CEO making the board members more accountable for succession decisions.

There is an alternate view that teams rather than individuals may be really important when it comes to strategic leadership and rather than having specific persons designated for promotions under succession plans it may be better to have executive teams from which future leaders may emerge.

Source: P. V. Sahad, India Inc.'s GenNext,'*Business Today* (15 August, 2004); A. Adhikari,'Who's Next?'*Business Today* (17 December, 2006): 76–91; and; B. Kalesh, 'Head Hunt,'*Business World* (October, 2007) at *http://www.businessworld.in/content/view/2656/2735/1/0/;* 'It is the Team, not the Leader,'*Business World* Roundtable discussion available at *http://www.businessworld.in/index2.php?option=com_content&do_pdf=1&id=2171* Both sites retrieved 13 December, 2007; and N. Singh and S. Mukherjee, 'Family-run Companies Better at Succession Planning,' *Times of India* (26 July, 2013).

Career planning and development: Here again, both formal and informal means are adopted to put in place the career planning and development for future strategic leaders. As mentioned earlier, the Tata group of companies rely on the TAS for developing their elite management cadre. Some other organisations have also adopted similar systems. Hindustan Unilever (HUL) has access to the global Unilever future leaders programme for filling up leadership positions. Organisations like Infosys have set up their own leadership training institutes to build and strengthen the quality of leadership internally.[22] Appointing executive assistants is another popular approach to developing future top managers in India. These persons are appointed at a young age to assist the CEOs and other senior managers in various ways such as helping in strategic planning and decision making by providing critical information inputs. Being in the vicinity of top echelons of an organisation exposes these young assistants to grasp the subtleties of strategic decision-making that can stand them in good stead when they are given senior managerial responsibilities. With widespread management education in India, executives have the benefit of studying integrative courses such as strategic management, corporate strategy and competitive strategies giving them the basic understanding required to be strategists. Those executives who have not had such a benefit may undergo specialised training usually at an external institution. Many educational and training institutions in India such as the Administrative Staff College of India (ASCI) and Indian Institutes of Management (IIMs) offer preparatory courses for middle-level managers to take up strategic management responsibilities in the future. Informal means for developing strategists include careful screening, assigning important tasks, keeping track of achievements, and evaluating and rewarding significant accomplishments. Family-owned organisations may use these approaches to develop the heirs to take up top positions in future. A combination of formal and informal means may also be used where the potential executives may be exposed to training and development programmes followed by individual guidance and counselling by senior executives in the organisation.

Succession planning: The top positions in any organisations are few and there are many aspirants willing to take up the challenges. While the choice of strategists and their career planning and management may help an organisation in building a reservoir of talent, succession planning enables the top management to prepare contingency plans to replace existing key managers whenever the need arises. Small organisations are almost exclusively dependent on the entrepreneur. Large organisations also rely extensively on a dominant chief executive. Unfortunately, death and disability occur without notice. The top executives are also lured away by head-hunters in competitive industries. Succession planning can take care of such contingencies. The matter of succession planning is a contentious issue at the best of times. Quite like the kingdoms of yore, there are corporate boardroom battles whenever a vacancy occurs at the top. Family-owned organisations face tussles and court cases between heirs that become the favourite targets of the media. In public sector enterprises and government, these may not be readily evident but a lot of behind-the-scene manoeuvres take place before a top position is filled up. Professionally-managed organisations also undergo internal churning. In family-owned but professionally-managed companies the issue of a clash of interest among the family heirs and professional managers may also happen.[23]

The choice of future strategists, career planning and development, and succession planning can largely take care of the tasks of strategic leaders. But the real test of leadership lies in making it an ongoing process to guide the organisation in the right direction. The functions of strategic leaders cannot be performed by just occupying top positions but by exerting leadership in several areas. Among these areas are making astute use of corporate politics and power, shaping the corporate culture, and exhibiting exemplary behaviour by setting high standards of personal ethics and values. We deal with these behavioural issues further in this chapter.

12.2 CORPORATE POLITICS AND POWER IN STRATEGIC MANAGEMENT

LO 2

All corporate cultures include a political component and, therefore, all organisations are political in nature. Strategists should understand that organisations are a microcosm of the society in which they exist. Organisational members bring with them their likes and dislikes, view and opinions, and inclinations and prejudices when they enter organisations. Managerial behaviour cannot be purely rational and, therefore, an understanding is to be acquired of how corporate politics (also known as *organisational politics*) works and how the use of power is to be made for effective strategic management.

Understanding Politics and Use of Power

Power is defined as 'the ability to influence others' and corporate politics is 'the carrying out of activities not prescribed by policies for the purpose of influencing the distribution of advantages within the organisation.'[24] According to a classic categorisation, managers derive power within an organisation from five types of sources:[25]

1. *Reward power* arises from the ability of managers to reward positive outcomes.
2. *Coercive power* arises from the ability of managers to penalise negative outcomes.
3. *Legitimate power* arises from the ability of managers to use position to influence behaviour.
4. *Referent power* arises from the ability of managers to create liking among subordinates due to charisma or personality.
5. *Expert power* arises from the managers' competence, knowledge, and expertise that is acknowledged by others.

The nature of organisation itself creates the conditions for power and politics to manifest. For instance, the manner in which the organisation structure is created leads to power and politics. Through the creation of an organisation structure, not only are the hierarchies, positions, and relationships created but structure ultimately leads to conflicts, coalitions, drives, and ambitions among the people who constitute an organisation. Most managers are aware that the higher they go up, the pyramid of organisation structure narrows down progressively; there are fewer top positions available as one ascends the hierarchy. This leads to jockeying for power resulting in political play. Since material rewards, promotions, prestige, and ego are involved, each organisation more or less is affected by corporate politics. For each manager who considers corporate politics and use of power as bad, there could be another who feels that it is good. So, despite some well-meaning managers shunning it, politics remains an integral part of an organisation's culture.

The exercise of power and use of politics has two connotations: negative and positive. When viewed negatively, power and politics are means for domination, manipulation, and subjugation. They entail self-serving behaviour involving deception and dishonesty for achieving individual or group interests leading to conflict and disharmony in the organisation. When taken positively, power and politics are a means of achieving organisational objectives. It is a natural outcome of people working together in organisations. The use of power and politics is the means to resolve conflicts and bridge genuine differences of opinions through a process of negotiations and seeking collaboration. It also involves managing coalitions, consensus-building, and creation of commitment to organisational purpose and mission. The topic of corporate politics and power in strategic management is generally viewed in the positive sense. Political considerations and use of power, therefore, are a part of behavioural implementation by strategists.

Corporate Politics and Power in the Indian Context

In the Indian context, the presence of politics and use of power are, perhaps, more visible than in other cultures. This may be due to two factors: the nature of Indian society and the higher level of enviousness exhibited by Indian managers.

J. L. Pearce describes India as a non-facilitative organisation context. This means that while organisations in India have adopted bureaucracy, the person-oriented nature of Indian society suggests an emphasis on particularistic rather than universalistic treatment of employees leading to reliance on personal characteristics in hiring, promoting, and rewarding employees.[26] This creates a perception of a lack of fairness in employee-organisation exchanges. Employees, for instance, may have a feeling that competence alone may not enable them to progress in their career. Some of them may resort to manipulative or ingratiatory behaviour. Pandey noted that manipulative behaviours that have implications for fairness of employee–organisation exchanges are more prevalent in developing countries characterised as they are, by resource scarcity, inequality, deprivation, and sociopolitical uncertainty.[27] One research study in Indian firms found that employees' actual political behaviour was related to feelings of alienation and interpersonal mistrust in the workplace.[28] Another research study on the Indian CEOs conducted jointly by the consultancy Hay Group of the UK and Bharat Petroleum Corporation Ltd. (BPCL) notes that while Indian CEOs achieve growth through consistently seeking out new information, technology and ideas to improve their businesses—compared to their peers in other countries—they showed virtually no focus on internal organisational politics or personnel issues.[29] A group of researchers investigated corporate power and politics in strategy implementation in Indian companies. Their conclusions show that many top managers deny the existence of politics within their organisations and feel that power and politics is not essential to organisational success. Regarding intracorporate politics, quite a few accept that it affect the strategists' style.[30] Corporate politics and power is present in organisations but most managers are ambivalent in acknowledgement its existence.

Another factor could be the pervasive enviousness exhibited in Indian organisations.[31] Managers have not only to deal with—and be affected by—intra-corporate politics, but also inter-corporate politics between rival companies. At a higher level, Indian industry is plagued with politics between associations and federations of business and industry, public versus private sector, small versus large sector, multinational versus local firms, and technocrats versus bureaucrats. In such a milieu, strategists have to be aware of not only internal political considerations but also the politics and power play present in other organisations, particularly government departments and ministries, with whom they have to deal with on a continual basis.

Corporate Political Activity

The subject of involvement of members of business and industry in influencing public policy is called corporate political activity. Formally defined as 'corporate attempts to shape government policy in ways favourable to the firm'[32], corporate political activity is a matter of interest to practitioners as well as academics. Just like corporate politics within organisations, corporate political activity can also be viewed as positive and negative. In the positive sense, such activity may be seen as collaboration between business and government for the good of the society. In the negative sense, it is crony capitalism in the form of an unholy alliance between business and government where public policy is used to benefit individual firm unfairly and unethically.[33]

Firms try to influence government policies and decisions by means both fair and foul. In the Indian context, the fair means are usually advocacy through industry associations and federations, membership on government consultative committees, media statements, impression management through participation in government programmes, election campaign contributions, and submission of memoranda on specific issues to ministers and senior bureaucrats. The foul means are bribery, lobbying parliamentarians and legislators, and illegal election funding.

Organisations use their resources to create a favourable business environment including the political environment. These resources could be organisational (e.g. liaison office), relational (e.g. formal or information relationships with politicians), public image (e.g. positive perception of any stakeholder), reputational (e.g. individual and firm responsibility), and financial (e.g. campaign donations).[34] Apart from resources, organisations rely on connections and networking to establish working relationship with political players. Government-business relations in developed economies like the US are accommodative, and in Europe they are collegial. In developing economies such as India such relationship tended to be adversarial till liberalisation has caused them to become more adaptive and assimilative.

From the perspective of strategic management, corporate political activity is a means for creating competitive advantage through advocacy of industry-friendly policies and governmental action to protect the interests of local industry against foreign competition, enactment of favourable legislation, and creating ease of business by simplifying statutory procedures. Corporate political activity may also be indulged in with a long-term or incidental advantage that may accrue as a result of favourable policy or action to an individual firm in which case it would be unfair to other firms not getting the same advantage.

A major reason for business and industry being interested in maintaining a relationship with the government is their attempt to reduce the policy uncertainty. Through access to information regarding impending policy changes and through advocacy to seek favourable policy enactment, business and industry attempt to contain the uncertainty in their own strategic decision-making process. No business firm would like to be surprised by sudden and potentially adverse policy announcement by the government. Rather, they would like to be in an advantageous position to pre-empt policy changes to gain time in adapting their own strategies. Thus, corporate political activity has important implications for strategic management.

Strategic Use of Power and Politics

Henry Mintzberg is of the view that corporate politics is neither inherently good nor bad. Though most of the time corporate politics leads to divisiveness that is not good for an organisation, yet there are times when it needs to be shaken up in order to bring in changes. These are the occasions, for instance, when an organisation is emerging from a phase of stability and entering into a period requiring some fundamental changes. Strategy implementation is basically about change management. Therefore, corporate politics and use of power have a definite role to play in strategy implementation. Recommending the need for creating political tension and apolitical harmony, Mintzberg says that '(the) organisation must ….. pull apart before it can pull together again'.[35] In other words, strategists need to know when to use power and politics to get things done and when to shun politics and use of power to maintain harmony.

Politics and power affect the way a strategy is formulated and implemented. 'A manager cannot effectively formulate and implement strategy without being perceptive about company politics and being adept at political manoeuvring'.[36] The different elements in the hierarchy of objectives: strategic intent, vision, mission, and objectives are affected by the formation of groups and coalitions which influence the direction that the organisation has to take. Political considerations affect which objectives take precedence over others and what strategy the firm has to choose. Recall that, in Section 9.3, we included internal political considerations as a descriptive factor in strategic choice.

Generally, there is even more politics in implementing strategy than in formulating it. In implementation, politics and power affect a number of elements. The nature of strategy implementation requires consensus-building, managing coalitions, and creating commitments. It also requires conflict resolution and delicate balancing of differing interests. To take a few examples: resource allocation is ultimately a rational-political decision which results in the sharing of scarce resources among different organisational units; structure results in the distribution of authority and responsibility and decides how power will be exercised; and corporate culture is itself partly the outcome of the use of politics and power.

Experience has repeatedly shown that by having an understanding of the use of politics and power, strategists can perform the tasks of strategic management better. 'Indeed, having astute political skills is a definite, and even a necessary, asset for a general manager to have in orchestrating the whole strategic process'.[37]

The strategic use of politics and power becomes even more critical where strategy changes are to be made. In reality, 'most strategic decisions and most strategic thrusts in large enterprises emerge as part of an evolving continuous political consensus-building with no precise beginning or end'.[38] Therefore, it is imperative to make strategy changes with a judicious use of politics and power.

The typical approaches to a strategic use of power and politics may involve one or more of the tactics mentioned as follows. These tactics are from the perspective of the CEO and senior management:

- First of all, to accept the inevitability of politics being there in the organisation.
- To use the processes of recruitment and selection to hire people with ambition to grow *with* the organisation rather than grow *at the cost* of the organisation. To use the processes of training and development to instil ethics and values.
- Understand how an organisation's power structure works, who wields real power and influence, and who are the individuals and groups whose opinions carry weight and cannot be disregarded.
- To be especially conscious of organisational processes that have a greater potential to promote negative political activity. Some of these processes are compensation management, performance evaluation, employee promotion and transfer, and organisation structure and design.
- To be sensitive and alert to political signals emanating from different parts of the organisation.

- To know when to tread softly and rely on coalition management and consensus-building, and when to push through decisions and actions by a selective and judicious use of 'Machiavellian' methods.
- To lead strategy and not to dictate it, being patient till a consensus emerges.
- To let most negative decisions emerge as a group consensus rather than as a directive from the top.
- To gather support for acceptable proposals and let the unacceptable ideas die a natural death.
- To reward organisational commitment and penalise negative or indifferent attitude.
- To practice principled politics and use openness and honesty to counter unprincipled politics.
- To develop corporate culture that emphasises transparency, openness, and fairness.

The next section discusses corporate culture and its significance to strategic management.

12.3 CORPORATE CULTURE AND STRATEGIC MANAGEMENT

LO 3

The phenomenon that often distinguishes good organisations from bad ones could be summed up as 'corporate culture'. 'It has been clearly demonstrated that every corporation has a culture (which often includes several subcultures) that exerts powerful influences on the behaviour of managers'.[39] The well-managed organisations apparently have distinctive cultures that are, in some way, responsible for their ability to successfully implement strategies. We shall see next what is corporate culture, how it influences corporate life, and how it can be managed so that it becomes strategy-supportive.

Composition of Corporate Culture

'Organisational (or corporate) culture is the set of important assumptions – often unstated – that members of an organisation share in common'.[40] There are two major assumptions in common: beliefs and values. Beliefs are considered to be assumptions about reality and are derived and reinforced by experience. Values are considered to be assumptions about ideals that are desirable and worth striving for. Besides the beliefs and values, people in organisations also share norms that are the expected standards of behaviour. When beliefs, values, and norms are shared in an organisation, they create corporate culture.

Culture in organisations exists at two levels of visible artefacts and observable behaviour such as ceremonies, stories, slogans, behaviours, dress, and physical settings, and the deeper values embedded in the minds of people in the form of values, assumptions, beliefs, and thought processes. Colloquially, corporate culture is expressed in the statement: 'how things are around here'. The manifestations of corporate culture in an organisation are evident in:[41]

- Shared things (e.g. the way people dress)
- Shared sayings (e.g. 'let's get down to work')
- Shared actions (e.g. service-oriented approach)
- Shared feelings (e.g. 'hard work is rewarded here')

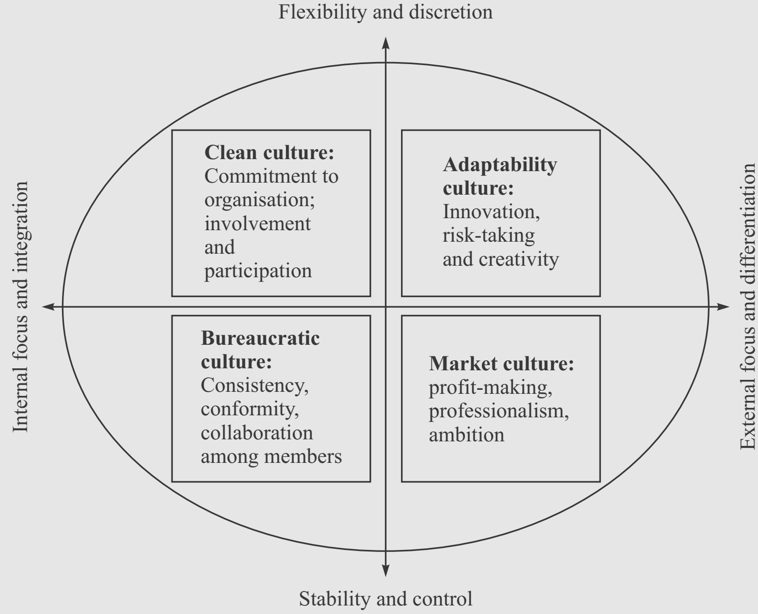
These shared assumptions can help to decipher the composition of the corporate culture of an organisation.[42]

Corporate culture generally remains below the surface and emerges at the time of organisational change. Then, it has either of the two effects: it supports the change processes or it opposes them. The intensity of the culture is an important variable that determines whether the change will take place as desired. An organisation has a strong culture if it has specific values that are widely and deeply shared; the culture is considered to be weak if those specific values are not shared widely and deeply.[43]

Types of Corporate Cultures

There are several typologies of cultures available in the literature. One of the more popular ones, called the competing values framework, shown in Exhibit 12.3 is based on two dimensions of: (a) the extent to which the competitive environment for an organisation requires flexibility and discretion or stability and control; and (b) the extent to which the organisation strategic focus is on internal and external environment. Based on these two dimensions four types of cultures can be identified.[44]

Exhibit 12.3 A Typology of Corporate Cultures



Source: Based on and adapted from R.E. Quinn and J. Rohrbaugh, 'A Spatial Model of Effectiveness Criteria: Towards a Competing Values Approach to Organizational Analysis,' *Management Science*, 29, (1983): 363–77; and K.S. Cameron and R. E. Quinn, *Diagnosing and Changing Organizational Culture: Based on the Competing Values Framework*. (Reading, MA: Addison-Wesley, 1999).

- *Clan culture*: There is internal focus and integration with flexibility and discretion. This means that the organisation gives priority to meeting the needs of the employees. There is a feeling of extended family. Superiors mentor and nurture subordinates and there is emphasis on involvement and participation. Employees are committed to the organisation.
- *Adaptability culture:* There is external focus and differentiation with flexibility and discretion. The organisation tries to meet customer needs. People exhibit entrepreneurial values. Innovation, risk-taking, and creativity are the hall mark of these organisations.
- *Market culture*: There is external focus and differentiation with stability and control. The organisation is result-oriented and emphasis is placed on competitiveness. Employees exhibit professionalism with ambition and serve customers. They try to achieve sales growth and profitability.
- *Bureaucratic culture:* There is internal focus and integration with stability and control. There are well-set procedures for work with established policies. Organisations typically highlight symbols, heroes, and ceremonies to reinforce values. There is consistency in action, conformity to rules, and collaboration among employees. The organisation tries to be integrated and efficient.

The competing values framework has implications for strategic management. Once organisations decide on their corporate and business strategies, they need to evaluate the type of culture they have and whether that culture suits the requirements of their chosen strategy. Then they need to find the preferred culture they should have to implement their strategy effectively. If there is mismatch between their actual and preferred cultures then they would have to make changes to make it suitable. With proper strategy-culture fit the organisation stands a better chance to succeed.

Impact of Culture on Corporate Life

The fact that organisations may have strong or weak cultures affects their ability to perform strategic management. 'Culture affects not only the way managers behave within an organisation but also the decisions they make about the organisation's relationship with its environment and its strategy.'[45] 'Culture is a strength that can also be a weakness.'[46]

When corporate culture acts as strength it can facilitate communication, decisionmaking and control, and creates cooperation and commitment. An organisation's culture could be strong and cohesive when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees, and which values are shared widely across the organisation.[47]

When the corporate culture is weak it may obstruct the smooth implementation of strategy by creating or augmenting resistance to change. An organisation's culture could be characterised as weak when many subcultures exist within, few values and behavioural norms are shared, and traditions are rare. In such organisations, employees do not have a high sense of commitment, loyalty, and a sense of identity. Rather than being members of the organisation, they are merely wage-earners. There are several traits exhibited by organisations that have a weak or unhealthy culture. Some of these are: politicised organisational environment, hostility to change, promoting bureaucracy in preference to creativity and entrepreneurship, and unwillingness to look outside the organisation for best practices.[48]

Exhibit 12.4 Impact of Culture on Two Different Groups of Organisations

S.K. Bhattacharya has analysed the major differences in multinational subsidiaries and professionally-managed companies on the one hand, compared to family businesses and NRI's companies on the other with regard to corporate culture.

We present Bhattacharya's observations in terms of a comparative table next. *Dimensions of corporate culture*

Dimenstion of corporate culture	*Multinational subsidiaries and professionally-managed companies*	*Family businesses and NRIs' companies*
1. Nature of desired managerial skills and capabilities	Emphasis on professional qualifications and rank	Emphasis on demonstrated skills, depth, and quality of knowledge
2. Actual performance or results achieved	Emphasis on seniority, conformity to organisational values, loyalty, and a relative fit between managerial behaviour and position in hierarchy	Emphasis on originality of action and thinking, innovation, and upgradation of knowledge and skills by personal efforts
3. Managerial style of planning and decisionmaking	Emphasis on information-gathering, bureaucratic mode of functioning, risk-aversion, and non-entrepreneurial decisionmaking.	Emphasis on selective information usage, and intuitive and quantitative decisionmaking of an entrepreneurial nature
4. Management systems adopted	Emphasis on the use of elegant, sophisticated and rational systems which degenerate due to low usage	Emphasis on reliance on business sense and 'no-frills' systems geared to quick action
5. Nature of management control	Emphasis on comprehensive, formal, and written reporting, and rationalisation of failures rather than resolution of problems	Emphasis on primary use of verbal reporting and remedial action

Source: Based on S.K. Bhattacharya,' Organisational Culture: An Indian Perspective,' *Business World* (1 – 14 February, 1988): 48–49.

There are three factors that seem to contribute to the building up of a strong culture. These are: a founder or an influential leader who established desirable values; a sincere and dedicated commitment to operate the business of the organisation according to these desirable values; and a genuine concern for the well-being of the organisation's stakeholders.[49]

Exhibit 12.4 illustrates how corporate culture in two different groups—multinational subsidiaries and professionally-managed companies versus family businesses and non-resident Indians' (NRIs) companies—may create a different impact on an organisation. While the views expressed in this exhibit are decidedly in favour of family business and NRIs companies, there is no doubt that 'in each sector of industry, the management style and corporate culture is distinctive'.[50] What is more appropriate to say is that Indian organisations, particularly family businesses, 'seem to be in a ferment now' and that companies 'known for their conservatism and traditional orientation have to now shift over to a more open and participative corporate culture if they have to maintain progress'.[51] The comments quoted here are by now nearly two decades old. What was indicated regarding family-business organisations in India seems to be underway. One family-owned but professionally-managed company's CEO sees 'the family providing for synergies, managing critical resource allocations, providing the group with strategic direction and advice and, generally, playing an energising role.'[52] This is in contrast to the conservative, control-based management generally associated with family businesses in the pre-liberalisation era. Hindustan Unilever, that faced the crisis of a declining market around 2000, had to embark on a change management exercise. This change involved change in culture aimed at developing four values of action, courage, caring, and truth resulting a greater openness and transparency.[53] The positive role of corporate culture is highlighted in a study of Indian software firms where culture led to better performance in terms of job satisfaction and quality and productivity of work.[54] Overall, corporate culture has a profound impact on many important aspects of corporate life.

Strategy-culture Relationship

Having understood what constitutes corporate culture and how it affects corporate life, it is important to understand its relationship with strategy. Corporate culture can be a source of sustainable competitive advantage.[55] Strategic options could also be limited by the culture of the organisation.[56]

The heightened interest in corporate culture in management studies arises from the fact that successive research studies have pointed out that certain organisational cultures tend to contribute to better financial performance of organisations. This relationship works on the basis of the capability of corporate culture to generate competitive advantage. The manner in which corporate culture contributes to the competitive advantage is by defining the boundaries of the organisation in a manner that facilitates individual interaction and/or by limiting the scope of information processing to appropriate levels.[57] Similarly, it is proposed that widely-shared relationships of corporate culture and strongly held values enable management to predict employee reactions to certain strategic alternatives thereby minimising the scope for unintended consequences.[58]

Each strategy creates its own unique set of managerial tasks so strategy implementation has to consider the behavioural aspects and ensure that these tasks are performed in an efficient and effective manner. Managerial behaviour arising out of corporate culture can either facilitate or obstruct the smooth implementation of strategy. The basic question before strategists, therefore, is how to create a strategy-supportive culture. A major role of strategic leadership is to create an appropriate strategy-culture fit.

A study of the strategies and culture of 32 Indian organisations across seven industries found some interesting connections between the type of industry and the culture of the companies in that industry. For instance, adaptability cultures were more prevalent in pharmaceutical industry. Clan, market, and bureaucratic cultures were found to be common in the construction industry.[59]Another study of 70 Indian firms found that flexibility with adaptability leads to better financial performance even if the business environment is hostile to the firm.[60]

Exhibit 12.5 illustrates the case of a post-merger company and highlights the manner in which it went about bringing in cultural changes to suit its strategy requirements but did not succeed.

Exhibit 12.5 Corporate Culture Changes at Warner Hindustan—Parke Davis

This illustration offers an insight into the post-merger cultural adaptation which takes place inside two entities where the merger apparently did not work.

In September 1988, Warner-Hindustan was merged with Parke Davis—both offshoots of the same parent, The Warner Lamber Company of the US. Parke Davis had a single location at Mumbai, and Warner Hindustan was multi-locational. The factors that led to the merger included: the vagaries of the oppressive Drug Price Control Order, the fact that both the companies belonged to the pharmaceuticals industry, and the potential of realising synergies. The objectives to forge an alliance were: creating scope for growth, building complementarity in product portfolio, and leveraging their brand power.

The two companies had very contrasting cultures. Parke Davis was a people-driven company that practiced participative and democratic values. It was basically a positively-oriented conservative company. Employees had interpersonal relationship based on trust and respect for each other. On the other hand, Warner-Hindustan had a task-oriented culture. There was a high level of cost- and profit-consciousness, and a controlled, formal and documented work culture. Risk taking by managers was encouraged.

After the merger, the management focussed on the rationalisation of facilities and resources, structuring departments, and allocating designations. However, no attention was paid to the two different sets of operating rules being followed in one post-merger company.

When the merger was consummated, there started a continual clash in the culture and working systems of the two partners for a long time. It seemed as if two separate companies were working under the same roof. The average employee felt alienated and insecure. It also led to the formation of cliques. After 4 years, in 1992, when conflicts manifested in the form of work-stoppages and low productivity, the top management of the company got together and created a new vision and mission statement for the company. The purpose was to create a common set of goals for the employees of both the companies.

Though the efforts to resolve the problems had been taken, still differences were evident from the departure of several managers. The process of cultural integration had apparently not succeeded.

Source: A. Farooq and A. Kazmi,'Creating the Right Strategy-culture Fit,' *Prestige Journal of Management and Research* (April-October, 1999): 25–37.

The strategists have four approaches to create a strategy-supportive culture:[61]

1. *To ignore corporate culture*: The first approach may be followed when it is nearly impossible to change culture. This is advisable because it is really difficult to change a nebulous phenomenon such as corporate culture. Besides, cultural changes, when enforced in a short duration, may be traumatic for members of an organisation.
2. *To adapt a strategy implementation to suit corporate culture*. It is easier to change implementation to suit the requirements of corporate culture. This is possible because the behavioural aspects of implementation offer a range of flexible alternatives to strategists in terms of structure, systems, and processes. These variables could be manipulated to subserve the interests of corporate culture. However, each situation in the organisation would call for an innovative solution and would test the capabilities of managers as strategists.
3. *To change the corporate culture to suit strategic requirements:* As mentioned earlier, it is extremely difficult to change corporate culture. But in some cases it may be imperative. For instance, the post-liberalisation spate of takeovers and acquisitions in the Indian industry led to a situation where many erstwhile multinational subsidiaries were taken over by family business groups. This led to a process—often prolonged and painful—of cultural transition.[62] But such a transition may be brought about by a careful understanding of existing culture, making strategic tasks explicit, assessing risks of cultural change, enhancing managerial capability to imbibe changes, and most importantly, exhibiting a strong, assertive leadership.
4. *To change the strategy to fit the corporate culture:* Rather than changing culture to suit strategy, it is better and more economical to consider the cultural dimension while formulating strategy in the first place. Recall

the subjective factors discussed in the selection of strategies. One of the important factors is commitment to past strategic actions which should take care that strategic changes are not drastic but incremental, allowing the cultural ripple effects to settle down to create a more conducive environment for strategy implementation. However, if an impregnable cultural barrier is faced after strategy implementation, it may be better to abandon the strategy or use a combination of the three approaches mentioned earlier.

The last issue of behavioural implementation we discuss in this chapter is of business ethics and personal values.

12.4 CORORATE ETHICS AND PERSONAL VALUES FOR STRATEGIC MANAGEMENT

LO 4

Discussing about corporate politics and use of power, earlier in this chapter, we had been walking a tight rope between moral and amoral use of politics and power. It is easy for managers to often forget the distinction between using power and politics for the benefit of self, organisation, or society. What blur the distinction are lack of personal values and a sense of business ethics. Corporate culture also has a profound impact on the personal values. In fact, one of the major components of culture is the beliefs and values of people. Personal values and a sense of business ethics guide managers of organisations to act in favour of corporate sustainability. Such values and ethics are the building blocks of the structure of long-term sustainability in contrast to short-term profit maximisation. In this section of the chapter, we attempt to answer these questions: what are personal values and business ethics? Why and how are they important? And what is the relation of values and ethics to strategy?

The Meaning of Ethics and Values

Ethics is a broad area of philosophy dealing with the study of what is right and wrong in behaviour. Determining right and wrong behaviour is based on moral standards derived from multiple sources such as society, family, religion, and philosophy. Corporate (or business) ethics is a part of ethics that deals with conduct of business according to what is right and wrong. In the discipline of management studies, business ethics is the study of how personal moral norms apply to activities and goals of an organisation. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as the agent of this system.'[63] Practically, business ethics operates as a system of values and 'is concerned primarily with the relationship of business goals and techniques to specifically human ends.'[64] 'Specifically human ends' means viewing the needs and aspirations of individuals not merely as individuals but as a part of society. It also means realisation of the personal dignity of human beings.

Personal values refer to a conception of what an individual or group regards as desirable.[65] A value is a view of life and a judgement of what is desirable that is very much a part of a person's personality and a group's morale.[66] Thus, a benign attitude to labour welfare is a personal value which may prompt an industrialist to do much more for workers than the labour laws stipulate. Service-mindedness is a corporate value, which when cherished in an organisation, manifests in higher customer satisfaction. Personal values are imbibed from parents, teachers, elders, and as an individual grows values are adapted and refined in the light of new knowledge and experiences.

Within organisations, values are passed on by the founder-entrepreneur or a dominant chief executive, and these remain in some form for a long time after that person is not there. J.R.D. Tata, the ex-chairman of the Tata group, when asked to define the House of Tata and what links the different Tata companies together said: 'I would call it a group of individually managed companies united by two factors: first, a feeling that they are a part of a larger group which carries the name and prestige of Tatas and public recognition of honesty, reliability, and trustworthiness. The other reason is more metaphysical. There is an innate loyalty, a sharing of certain beliefs. We all feel a certain pride that we are somewhat different from others.'[67] The several values that J.R.D. Tata refers to, have been derived from the ideals of J.N. Tata, the founder of the Tata group. J.N. Tata is widely regarded as a visionary who pursued long-term strategic leadership even at the expense of short-term financial interests.[68] Down the line of succession at the Tata group, Ratan Tata has this to say in an interview in 2002: 'Business, as I have seen it, places one great demand on you: it needs you to self-impose a framework of ethics, values, fairness and objectivity on yourself at all times. It is easy not to do this; you cannot impose it on yourself forcibly because it has to become an integral part of you. What has to go through your mind at the time of every decision, or most decisions, is: does this stand the test of public scrutiny…? As you think the decision through, you have to automatically feel that this is wrong, incorrect, or unfair…'[69] As a result of emphasis on ethics in conducting business, the Tata group has gained reputation not only for competence but also societal reputation for integrity going beyond business expertise.[70]

At this point, it is necessary to differentiate clearly between values and ethics. Values are personal in nature (e.g. a belief in providing customer satisfaction and being a good paymaster) while ethics is a generalised value system (e.g. avoiding discrimination in recruitment and adopting fair business practices). Business ethics can provide the general guidelines based on which strategic management can operate. Values, however, offer alternatives to choose from. For example, philanthropy as a business policy is optional. A strategist may or may not possess this value and still remain within the limits of business ethics. It is values, therefore, that vary among the strategists in an organisation, and such a variance may be a source of conflict at the time of strategy formulation and implementation.

Organisations derive values and ethics from their corporate culture. Corporate cultureis the outcome of shared assumptions that individual members of the organisations have. The right set of values and a code of ethics have to be formulated by an organisation on the basis of its founding philosophy, cherished traditions, norms of ethical behaviour, and social requirements. Several organisations have formulated codes for their members. Through this the leadership attempts to inculcate personal values and impart a sense of business ethics to the organisational members. At one end, values and ethics shape the corporate culture and dictate the way how politics and power will be used and at the other end clarify the social responsibilities of the organisation.

Importance of Values and Ethics in Business

The twin issues of business ethics and personal values have come to occupy pre-eminence in management. There is an increasing awareness around the world about ethical practices in business. This is in tandem with rising interest around the world in issues such as spirituality at work. International organisations such as the World Bank and the International Monetary Fund (IMF) are concerned about whether the aid provided by them is used for the intended purposes and not frittered away by corrupt government officials. Transparency International brings out an annual rating of countries on an index of corruption that serves as a guideline for foreign investors and international donor agencies. Global Integrity Index rates countries on how effective they are in dealing with corruption. India's 2013-rank on the Transparency International's corruption perception index is 94 out of 177 nations. On global integrity, India gets a weak score with a ranking of 70 out of 107 nations having very weak implementation despite having strong legal anti-corruption framework.[71]

Within India, there are significant social, cultural, political, technological, and economic factors affecting the state of personal values and business ethics within industry.[72]The ongoing reform process in India has significant implications for managers and their organisations as the new economic ideology also interacts with entrenched cultural values in influencing individual behaviour.[73] There is also evidence coming up to show that the political, social, and economic reforms are causing a major shift in cultural values that includes increased focus on material success.[74]

Earlier we had referred to the issue of corporate governance in strategic management. Corporate governance has attracted worldwide attention as a means to induce ethical behaviour in business. Within the corporate governance framework there exists a dilemma for the managers.

Such a typical dilemma faced by strategists is to somehow reconcile the pragmatic demands of work (which often degenerate to a distortion of values and unethical business practices) to the call of the 'inner voice' which somehow prevents them from using unethical means for achieving organisational goals. This dilemma stems from the fact that apparently the value system of the organisation has already been contaminated beyond redemption. Some analysts attribute this to the acceptable behaviour in a society at a particular point of time or justify it in terms of the rapid transition of a developing society where social mechanisms have become obsolete. But it is an issue of concern whether deterioration in values and ethics can ever be thought of as a temporary phenomenon that could be expected to go away as economic development takes place.

The phenomenon of corruption most often applied to abuse of public power by politicians and civil servants for personal gain, is motivated by greed and by the desire to retain or increase one's power. Corruption in industry, which is a major by-product of the degradation of values and ethics, is also related to the inability of the industry to stand up to the discretionary powers of a regulatory system designed and administered by an unholy alliance of bureaucrats and politicians.[75] But repeated observations have shown that excellent organisations that have an explicit belief in, and recognition of, besides other values— the importance of economic growth and profits, are driven by values rather than avarice.[76] Strategists, therefore, have to provide the right values and ethical sense to the organisation they manage.

Exhibit 12.6 provides material on which to determine the 'rightness' of values and ethics based on Indian psycho-philosophical thought. The last proposition given in this exhibit is particularly relevant to what we shall discuss next and so it should be kept in mind.

Exhibit 12.6 Values and Ethics in the Context of Indian Psycho-philosophical Thought

Prof. S.K. Chakraborty of Indian Institute of Management (IIM), Kolkata has done extensive work on Indian psycho-philosophical thought, contained in ancient texts of Hinduism, to derive insights for the purpose of developing managerial effectiveness. His basic idea is to rely on education versus training, values versus skills, principles versus policies, and wisdom versus knowledge to develop managerial effectiveness. His model of managerial effectiveness is based on seven psycho-philosophical thoughts: the concept of self and reality; dis-identification; theory of *Gunas*; theory of *Samsakaras*; the doctrine of *Karma*; theory and method of work; and a 'giving' model of motivation.

With regard to values and ethics rooted in the Indian thought, several ideas have been proposed as follows:

1. The concept of self in man has to embrace the spiritual dimension beyond the physical, social, and economic dimensions.
2. The creative energies of human beings are derived from, and rooted in, the Supreme Creative Intelligence.
3. Managerial decisionmaking requires the interplay of both analytic and holistic faculties.
4. The final resolution of managerial conflicts lies in the de-egoisation of the self.
5. The key to cooperation and teamwork lies in realising that the same *atma* dwells in all.
6. The quality of managerial decision-making and skills can be improved through an understanding and internalisation of the doctrine of *Karma*.
7. Motivational strategies need to be based on the 'giving' model rather than a 'needing' model of man.
8. Ability for developing effective leadership style requires an understanding of three qualities of man: *sattwa* (righteousness), *rajas* (selfishness), and *tamas* (laziness).
9. All managerial decisions are subjective in the ultimate analysis and the effectiveness of such decisions depends critically on the purity of the mind of the decisionmaker.

Sources: Based on S.K. Chakraborty, *Managerial Effectiveness and Quality of Worklife: Indian Insights* (New Delhi: Tata McGraw-Hill, 1987) and S.K. Chakraborty, *Foundations of Managerial Work: Contributions from Indian Thought* (Bombay: Himalaya Publishing House, 1988).

Values, Ethics, and Strategy

Personal values and ethics are important for all human beings. They are especially important for strategists as they are custodians of immense economic power vested by society in business organisations. The possession of personal values by strategists is good, but the important issue is whether it is right to let them affect the considerations for strategy formulation and implementation. Rather a more relevant question could be: can strategists prevent their personal values from affecting strategy formulation and implementation? To seek an answer, note what Christensen and his co-authors have to say: 'Executives in charge of company destinies do not look exclusively to what a company might do or can do. In apparent disregard of the second of these considerations, they sometimes seem heavily influenced by what they personally want to do.'[77] 'CEOs or the top managers are prone to let their personal preferences influence company strategy to the extent they have managerial discretion, or latitude of action.'[78] If we now look at the last proposition in Exhibit 12.7, we find that it is indeed true. The intentions of individuals, that is their 'purity of mind' as decision-makers within an organisation matter a lot in strategic management. This fact is also the basis of the *Upper Echelons theory* that proposes that managers' characteristics influence the decisions they make and therefore the actions adopted by the organisations they lead.[79] In the light of the discussion here we can say that there has to be a right connection between values, ethics, and strategy. It is imperative that strategists take strategic decisions not only on the basis of purely economic reasons but take those decision considering values and ethics.

Business ethics has traditionally been considered as integrating core values, such as, honesty, trust, respect, and fairness into decisionmaking, policy formulation, and strategic management. It has been perceived as a set of legally-driven codes, in the form of a list of do's and don'ts for the company executives, which have to be complied with. In the Indian context, there are changes occurring in such thinking. A survey of 421 senior Indian managers reveals that there is a strong disposition towards learning and market responsiveness across demographic variables such as age, education, or gender. This learning goal seem to be displacing previously held goals of stability, tradition, and security or the traditional power relations with more emphasis through the strategic arena of the external context.[80]

Another significant change is occurring in considering business ethics as central to managing organisations. Companies are formulating value-based, globally-consistent codes for ethical understanding and appropriate decision-making at all levels even as they face immense external challenges. They are also strengthening the systems for detecting fraud within organisations. *Business World* reported an anonymous case of a large Indian pharmaceuticals company which received complaints of fraud in its procurement and inventory management division. It became concerned about the impact the fraud could have on its credibility if the word got out. It commissioned a risk advisory service consultancy to investigate. After investigations, based on forensic documents examinations, e-mail and data analyses, interviews, and market rate comparison the consultancy detected two senior managers making fictitious procurement orders and altering inventory records. The company took action according to its policy against these persons. The incident also helped the company to improve its anti-fraud controls.[81]

The state of unethical activities in Indian organisations can be gauged from a survey by KPMG India of fraud and its antecedents, aftermath and the measures taken to prevent them. The major highlights of the survey are presented in Exhibit 12.7. Note some of the startling findings that emerged out of the survey and you would realise how serious the challenge of personal values and business ethics is to organisations today.

Exhibit 12.7 Unethical Activities in Indian Organisations

The Indian subsidiary of the MNC consultancy, KPMG India, conducted a survey of 293 Indian organisations in the public and private sectors in 2012. The survey covered the impact of changed regulatory environment and evolving regulatory framework on fraud, emerging frauds, bribery and corruption, identity theft, intellectual property frauds, and cyber crimes.

The highlights of the survey findings are as follows.

- More than half the respondents to the survey experienced fraud.
- Ninety-four per cent of respondents feel that frauds have become more sophisticated.
- Seven-four per cent feel that fraud is an inevitable cost of doing business.
- The emerging frauds of future are cyber crime, intellectual property theft, counterfeiting and piracy, and identity theft.
- Bribery and corruption is the most frequent type of fraud experienced followed by cybercrime and diversion of assets.
- Financial services lead the sectors experiencing fraud followed by information and entertainment, real estate and infrastructure, and industrial markets.
- Among the groups of people who are more susceptible to fraud are vendors and agents followed by senior management and non-managerial employees.
- The functions within organisations most susceptible to fraud are procurement, inventory, and sales and distribution.
- Among the most effective means of detection of frauds are whistle-blower hotline, internal audit and data analytics.
- Most organisations resort to internal investigation as response to fraud followed by modification of controls and disciplinary actions.

Who commits unethical activities in organisations? Why does a fraudster commit fraud? and What can be done to prevent fraud? are some of the questions that another KPMG survey investigated. The survey of fraudsters was conducted in Europe, Middle East and Africa, and India.

A fraudster is often an average company employee who is trusted with company assets and information. Some startling findings of the fraudsters' survey show that the person committing fraud is often the organisation's own employee, is quite likely to be among the managerial cadres with 60 per cent chances of him being among the top management including the directors on board. This shows that the people often entrusted with the destiny of the organisation are often the ones who act unethically. Being managers these persons are highly educated, have a good family background, and are selected through a stringent recruitment process. Yet, these people turn out to be white-collar criminals.

Three factors of opportunity, motive, and rationalisation can help to explain why people commit fraud. Opportunity is provided by weaknesses in the internal control systems of the organisation. Ironically, trust also is often misused to commit fraud. Motives arise from greed, financial pressures arising from excessive lifestyle, pressures to meet financial targets, and the perceived gap between the responsibilities discharged and the remuneration received by the employee. The rationalisation generally takes place in terms of self-justification that the organisation owes the employee additional remuneration.

Another survey report, the Kroll Global Fraud Report, points out that four of five companies worldwide are affected by fraud. The Indian respondents to the survey opine that the prevalence of fraud has increased in recent times. Apart from traditional methods of fraud such as misappropriation of funds newer forms such as IT-related crimes, identification thefts, and false reporting by asset managers have emerged with applications of new technologies.

Effective internal controls, applying best practices, due diligence, and continual preventive efforts are necessary to minimise the incidence of fraud in organisations.

Source: India Fraud Survey Report, 2012 KPMG India available at *http://www.businessworld.in/c/document_library/get_file?uuid=3f13daf0-c87d-4050-af99-ef18ff5925c8&groupId=520986* Retrieved 10 May, 2014 and *Profile of a Fraudster Survey 2007* available at: *http://www.in.kpmg.com/pdf/KPMG_Profile_of_a_%20Fraudster_Survey%202007_Forensic.pdf*; 'Four out of five companies in the world affected by fraud: Kroll Global Fraud Report,' in *domain-b.com* 25 September, 2007 available at *http://www.domain-b.com/management/general/20070925_fraud_report.html*. Retrieved 10 January, 2008.

Business ethics is being identified as a major source of competitive advantage. A seminal research by Margolis and Walsh covering 80 research studies over a period of 30 years probed the question whether ethics pays in business. In other words, the question explored in the research is whether good ethics also means good business. The result is unambiguously in favour of the opinion that there is a positive relationship between social and financial performance. Organisations that are ethical also perform financially better than the ones that are perceived as unethical.[82]

Companies that are recognised as ethical organisations are able to attract investment and human capital, retain talent, differentiate themselves in the market, and create a perception of being customer-friendly. The chairman of a successful company in India says: 'Value-based organisations have demonstrated that even so-called soft concepts can be extremely powerful. Money can't buy reputation and integrity; both have to be earned. Organisations based on strongly-held shared values amongst their customers and employees (in that order) have been able to professionalize and develop their market potential through strong brand loyalty and relationship-building with their constituents.'[83] Recognising the immense significance of personal values and business ethics, there have been attempts at describing how ethics be imbibed as a part of managerial activities through the adoption of a practical framework:[84]

A major set of tasks in strategy implementation is to create consistency among the personal values and business ethics and the proposed strategy. This is done through *inculcating the right set of values*, *reconciling divergent values*, and *modifying values* that are not consistent with the strategy. Let us try to understand each of these tasks.

Inculcating values and ethics: Once the values and ethical codes are formulated, strategists have to set about inculcating them. Several actions could be taken for this to be accomplished. A representative list of such actions is given as follows:[85]

- Considering values and ethics in recruitment and selection to ensure compatibility of the character traits of potential employees to the ethical system of the organisation.
- Incorporating the statement of values and code of ethics into employee training and educational programmes.
- Example-setting by top management in terms of actions and behaviours that reinforce the values.
- Communication of the values and code of ethics through wide publicity and explanation of compliance procedures.
- Constant monitoring of compliance by superior staff and top management.
- Consistent nurturing of values within the organisation through their integration into policies, practices, and actions.
- Paying special attention to those parts of the organisation that are susceptible to ethically-sensitive activities, such as, purchase and procurement, dealing with government and other external agencies.

Reconciling divergent values: Strategists have to reconcile divergent values and modify values, if necessary.[86] A typical case of value divergence may arise while setting objectives and determining the precedence of different objectives. One group of strategists (may be, a coalition) is interested in production-oriented objectives such as standardisation and mass production while another group may stress marketing-related objectives such as product quality and small-lot production. These interests may be legitimate in the sense that they arise from their functional bias. It is for the CEO now to reconcile the divergent values. Obviously, this can be done best in the light of strategic requirements and environmental considerations.

Modifying values to create consistency: Modification of values is frequently required for strategy implementation. A particular strategy, say of expansion, may be suboptimal if existing values do not conform to these requirements. In such cases, modification of values is necessary. Changing values is certainly difficult, if not impossible. It may be a long-drawn process of a judicious use of politics and power, redesigning of corporate culture, and making systematic changes in organisation can help to modify values gradually.

With this we come to the end of our discussion of the various aspects of behavioural implementation. As we have seen, there are so many issues yet these are intertwined. One cannot think of personal values and corporate ethics without referring to strategic leadership. The use of power and politics in organisation is intimately tied to the corporate culture. In this manner, all these issues are a part of the behavioural implementation in any organisation. We will now go ahead to discuss functional and operational implementation.

Summary by Learning Objectives

This chapter has dealt with several issues relevant to the behavioural aspects of strategy implementation. Among these are issues such as strategic leadership, corporate politics and power, corporate culture, and corporate ethics and personal values. These topics are mostly covered in other courses in the curriculum of management education programmes. Therefore, our effort all along has been to place these important issues in the context of strategic management.

The key points covered in this chapter are as follows:

LO 1 *Review the tasks, skills, styles, roles, and development of strategic leaders of an organisation*

- Strategic leaders are responsible for strategic management of an organisation. They operate at corporate, business, functional, and operational levels in an organisation. The major responsibility of strategic formulation lies with the corporate- and business-level strategic leaders while the implementation tasks are taken up by the functional- and operational-level managers.
- The tasks of strategic leaders are many and varied. The major tasks that strategic leaders are expected to perform are: determining strategic direction; effectively managing the organisational resources portfolio; sustaining an effective organisational culture; emphasising ethical practices; establishing balanced organisational controls; building partnerships; and developing future strategic leaders.
- While performing the tasks expected of them, strategic leaders need to demonstrate the skills of anticipating competitors' actions and reactions, challenging the existing views and soliciting diverse views to look at organisational problems from multiple perspectives, interpreting the diverse views to derive the correct conclusions, deciding about trade-offs, risks, and unintended consequences when making decisions, aligning stakeholders' interests, and promoting organisational learning.
- The strategic leaders are expected to have the skills necessary to implement strategies and also have the ability to adapt their styles to the needs of particular strategies. The chosen strategy has a significant impact on leadership style and strategists have to adapt their style to suit the requirements of particular strategy.
- The roles that strategic leaders play are many and varied. The most important roles in strategic management have to be played by the CEOs and senior management of an organisation. Business-level strategic leaders are involved in business-level strategy formulation and implementation. The functional- and operational-level managers primarily are called upon to play the role of implementers of strategies.
- The development of strategists is the responsibility of the top management and they do it through exercising a choice of strategists and their career planning and development, and succession planning.

LO 2 *Identify the role of corporate politics and use of power in strategic management of an organisation*

- The use of politics and power, in a positive sense, has gained ground in strategic management. The theme of the section on corporate politics and use of power is to demonstrate how strategists should understand corporate politics and in what way should the use of power be made to facilitate the implementation of strategy. The nature of organisation itself creates the conditions for power and politics to manifest.
- The subject of involvement of members of business and industry in influencing public policy is called corporate political activity. In the positive sense, such activity may be seen as collaboration between business and government for the good of the society. From the perspective of strategic management, corporate political activity is a means for creating competitive advantage through several different means.
- Politics and power affect the way a strategy is formulated and implemented. In implementation, politics and power affect a number of elements. The nature of strategy implementation requires consensusbuilding, managing coalitions, and creating commitments. It also needs conflict resolution and balancing of interests. Having an understanding of the use of politics and power can make the doing of the tasks of strategic management better. A strategic use of politics and power becomes even more critical where strategy changes are to be made.
- There are several approaches to a strategic use of power and politics that may involve tactics such as accepting the inevitability of politics, using the processes of recruitment and selection, understanding how an organisation's power structure works, to be especially conscious of organisational processes that

have a greater potential to promote negative political activity and to be sensitive and alert to political signals. It is also wise to know when to go slow and when to push through decisions and try to lead rather than to dictate strategy.

LO 3 *Recognise the role of corporate culture in strategy management*

- Corporate culture is composed of beliefs and values that the members of an organisation share in common. These have a significant impact on corporate life and no effort concerning strategy implementation can be successful if culture is not strategy-supportive. By relating strategy to culture, we have described how a strategist can evolve a meaningful approach to creating a good strategy-culture fit.
- A popular approach, called the competing values framework, to classifying the different types of corporate culture refers to clan, adaptability, market, and bureaucratic cultures.
- Corporate culture can be strength or a weakness. When the culture supports strategy implementation it is strength and when it obstructs it becomes weakness. The need for strategists is to create a strategy-supportive culture.
- Four approaches to creating a strategy-supportive culture are described in the chapter: to ignore corporate culture, to adapt strategy implementation to suit corporate culture, to change the corporate culture to suit the strategic requirements, and to change the strategy to fit the corporate culture.

LO 4 *Describe the contribution of corporate ethics and personal values in strategic management*

- Corporate (or business) ethics is a part of ethics that deals with conduct of business according to what is right and wrong. Personal values refer to a conception of what an individual or group regards as desirable. Values are personal in nature while ethics is a generalised value system.
- Personal values and business ethics seek to prevent an indiscriminate use of power politics within organisation. Strategy has a moral component that is often realised by strategists but is found too difficult to put into practice. All managerial decisions, particularly strategic decisions, are ultimately subjective, so having purity of mind is essential for strategists so that the subjectivity does not harm the strategic interests of the organisation.
- Corruption in industry is an important issue for strategists as it affects the reputation of the organisation outside and creates problems of governance within. Strategists have to provide the right values and ethical sense to the organisation they manage.
- Values, ethics, and strategy are intimately interrelated. Values affect the sense of ethics of managers that determines their choice in strategic decision-making.
- Organisations are formulating value-based, globallyconsistent codes for ethical understanding, and appropriate decisionmaking at all levels even as they face immense external challenges. They are also strengthening the systems for detecting fraud within organisations.
- Behavioural implementation is concerned with inculcating the right set of values, reconciling divergent values, and modifying values that are not consistent with the strategy.

With the conclusion of this chapter, we now move to the last part of strategy implementation. The next chapter focuses on the nitty-gritty of strategy implementation, that is, the functional and operational implementation.

EXERCISES

Short-answer Questions

1. Identify the strategic leaders operating at different levels of an organisation. **(LO 1)**
2. State the five more important tasks that strategic leaders perform. **(LO 1)**
3. Enumerate the major insights developed by leadership theory to help strategists in leadership implementation. **(LO 1)**
4. What is meant by the phrase 'appropriate style of leadership'? **(LO 1)**
5. How can the choice of future strategists through succession planning help in their development? **(LO 1)**
6. How is the development of strategists done through career planning and development programmes by Indian companies? **(LO 1)**
7. List some of the major roles that CEOs are called upon to play in strategic management. **(LO 1)**
8. Suggest practical steps that strategists can take to make a strategic use of politics and power. **(LO 2)**
9. Why are personal values and business ethics especially important to strategists? **(LO 2)**

10. How can strategists reconcile divergent personal values among organisational members or modify them to suit the requirements of strategy implementation? **(LO 2)**
11. Why is 'purity of mind' so essential to create an ethical system of strategic management within an organisation? **(LO 2)**
12. What does corporate culture consist of? **(LO 3)**
13. In what ways could a conservative family business group in India mould its corporate culture to implemented expansion strategies? **(LO 3)**
14. What approaches can strategists adopt to create a strategy-supportive culture? **(LO 3)**
15. Differentiate clearly between values and ethics. **(LO 4)**
16. What are the reasons strategists try to provide the right values and sense of ethics to the organisations they manage? **(LO 4)**
17. Can strategists prevent their personal values from affecting strategy formulation and implementation? **(LO 4)**
18. How do values-related and ethical considerations affect behavioural implementation? **(LO 4)**

Assurance of Learning Exercises

1. Enumerate and describe the major tasks that strategic leaders perform in organisations. **(LO 1)**
2. Why do strategic leaders need to match their leadership style to the requirements of the strategy that plan to implement? How can the strategic leaders match their leadership style to the requirements of strategy being implemented? **(LO 1)**
3. Consider this situation: The patriarch of a family business group in India passes away and his two sons take over the strategic responsibilities. The group is known to adopt a conservative style with tight management and financial controls, coupled with personalised organisational systems, such as, information and appraisal. The sons now wish to adopt expansion and diversification corporate strategies to take advantage of environmental opportunities. You are called in as strategic management consultant to suggest a plan for help the group companies in developing and implementing an appropriate leadership style. What would you suggest in this regard? **(LO 1)**
4. Describe the role of the CEOs, senior managers, business-level executives, and functional and operational managers in strategic management. **(LO 1)**
5. What strategic roles do you anticipate you would be asked to perform when you graduate after completing your management education programme? How can you prepare yourself to play those roles? **(LO 1)**
6. Describe the different methods that organisations can use to prepare their strategic leaders? **(LO 1)**
7. A young businessman wonders how something as repugnant as politics and power games could be used to implement strategies. How will you convince him that this is possible? What are the arguments that you place before him for considerations? **(LO 2)**
8. Divide your class into two groups. Let one groupadopt the position that corporate political activity is a legitimate activity to be done by business organisations. The other group can take an opposite view. Conduct a group discussion and write down the views emerging out of the discussion. What is the dominant view? Analyse the reasons why the view is dominant. **(LO 2)**
9. Write down brief argumentative statements agreeing or disagreeing with these statements: **(LO 2)**
   a. Politics and power affect the way a strategy is formulated and implemented.
   b. There is more politics in implementing strategy than in formulating it.
   c. Strategists can perform the tasks of strategic management better by having an understanding of use of politics and power.
   d. A strategic use of politics and power becomes even more critical where strategy changes are to be made.
10. How can strategists perform the tasks mentioned? **(LO 3)**
    a. Assess of the impact of corporate culture.
    b. Create a strategy-supportive culture.
11. Your textbook refers to four types of corporate cultures. Access the Internet to search for a company each that, in your opinion, possesses the characteristics of each of the four types of corporate cultures. Now, identify the strategy or strategies adopted by that company. Try to match each company's strategy with the corporate culture that that company has. Appraise whether the company has an appropriate corporate culture. **(LO 3)**
12. An industrialist is convinced that her company does not possess the right type of corporate culture that is required to implement the type of strategies she wants to implement. Assume the role of

a consultant and advise her about the different approaches she can adopt to align the culture of her company to her chosen strategies. **(LO 3)**

13. If personal values are indeed 'personal' how can a strategist seek to reconcile or modify these values in terms of strategy requirements? How will business ethics play a part in strategy implementation? **(LO 4)**
14. Identify a few Indian organisations that, in your opinion, are generally perceived as having an impeccable reputation as being highly ethical. Access information about them and enumerate the factors that could be responsible for them being perceived as highly ethical organisations. Does this perception help these organisations in implementing their strategies? Why or why not? **(LO 4)**
15. Many management thinkers in India feel that professionalising management within and minimising state controls outside can lead to a better quality of business ethics. Do you agree? Why? **(LO 4)**

Review Case

BEHAVIOURAL IMPLEMENTATION AT INFOSYS TECHNOLOGIES*

On 1 August, 2014, Sunil Sikka took over as the CEO and MD of Infosys. Prior to joining Infosys he was the chief technology officer with SAP. With his appointment, there was a break with tradition of handing over the reins of the company to one of the seven founders.

A group of seven software professionals established Infosys Consultants in 1981 with a small capital outlay of US$ 250. Infosys Technologies has grown into a global company with revenues of over Rs. 50,000 crore, gross profit above Rs. 19,300 crore and net profit of over Rs. 10,600 crore in the financial year 2013–14. It had more than 1,60,000 employees representing a large variety of nationalities and ethnicities around the world. It derives about 60 per cent of revenues from North America and the rest from other parts of the world. Infosys operates in the business of software development services for international and domestic markets. With its global delivery model, Infosys has popularised the concept and practice of outsourcing of information technology (IT) services around the world.

While Infosys had an impeccable financial performance record for three decades, in 2013, it faltered. It missed the analyst's forecasts and performed below industry benchmarks. Though it had 95 per cent of its clients providing return-business, it was not attracting new clients; sales were falling, and market share was eroding. Infosys had a serious competitiveness problem. Another major challenge was and remains on the employees' front. As the fortunes of Infosys started dipping, top managers exited, attrition among employees increased and morale started declining. N.R. Narayana Murthy, the senior founder who led the company since inception and had gone into retirement was brought back to the helm of affairs. In 2014, Sikka, an outsider, joined the company as CEO.

The strategic leadership of Infosys had passed down from one of the seven active founders of the company to the next including N.R. Narayana Murthy who served as the CEO for 21 years, became chairman of the board and the chief mentor of the company and later retired as chairman emeritus only to be brought back as non-executive chairman. Another founder-director is Nandan M. Nilekani who was the co-chairman and served for 5 years as the CEO and MD before S. Gopalakrishnan took over. Shibulal took over as the CEO in 2011 handing over the reins to Sikka in 2014. Thus, the strategic leadership of Infosys has passed through a seamless succession from Murthy through Shibulal as each founder attained the age of 60 years. This in itself is remarkable in a national milieu where age is neglected and aged corporate leaders keep holding the reins of corporation well past their prime. Another fact is that all the seven founders of Infosys are thorough professionals not related to each other. Their appointment as strategic leaders is therefore based on professional standards rather than family relationship. The nominations committee of the board planned forShibulal's succession. Thereafter, the company appointed executive search firm for vetting internal and external candidates for the top position. The choice of Sikka, a rank outsider, also is a reflection of the professionalism of Infosys. The company has the Infosys Leadership Institute to prepare employees for senior leadership positions.

Leadership style at Infosys has been driven by commonality of approach among top management as all of them struggled through the years together and evolved a rare camaraderie. In the words of Nilekani, 'We have a congruence and commonality of approach. What we have is a collective vision. There may be subtle changes when leaders change. It is not like in Western countries where there is a huge change when leaders change. It is more collegial and organic. Core culture and values will be the same. Infosys is really the contribution of many people—not individuals. Sung and unsung people.' With the appointment of Sikka, it would have to be seen whether the continuity in approach, Nilekani talked about, would indeed continue.

A critical challenge in changes in leadership style at Infosys is the transformation of an entrepreneurial style to a professional style. Again in the words of Nilekani, 'When you have entrepreneurs also playing a leadership role like us, you have to change with the times, otherwise you become obsolete.' This change has been brought about gradually over the years by instituting best practices in budgeting, financial viability, education and training, and processes besides building world-class campuses. In this manner, individual leadership styles of CEOs at different times become partly irrelevant. For instance, Murthy's style of leadership was considered as pushy, aggressive, perseverant, and focused while Nilekani's was more intuitive, relaxed, letting people work at their own pace unless a need arose to push ahead. Sikka, by end-2014, was settling down in his job and yet to divulge fully his leadership style. His creative side, however, is revealed in a haiku he shares on his blog:

In the moment, raindrop slides
With its momentum, purposefully down the window
Does it know it's rain?

Internal politics is a sensitive issue not talked about openly outside organisation and in the media. Anecdotal evidence on employer evaluation sites such glassdoor.com, however, does include comments by present and former Infosys employees of the presence of politics within. These are often related to job insecurity, unfair compensation, unjust allotment of work, and favouritism among project managers. Some employees also point out to the high attrition rates arising from low compensation and job dissatisfaction. Ex-employees have also hinted in the media about the excessive powers enjoyed by the active founders leading to the exit of senior personnel. Yet, there is all round praise for Murthy as an icon, ideal and a focus for cohesion in a company that is reputed for its ethical stance and honest dealings.

An idea can be had about personal values and business ethics at Infosys by what Murthy says about the initial stages of Infosys: 'We never dreamt about size, revenues, and profits. Our dream, right from day one, was to build a corporation that was, above all things, respected… From the beginning, our team was unique in our commitment to a strong value system. We believed in putting the interest of the company ahead of our own interests. We believed in ethical and legal business. We believed in respect and long-term gratification.' Murthy's and other founder's commitment to values and ethics is manifested in the setting up of Infosys Foundation in 1996, that works in the area of corporate social responsibility. Infosys also has an ambitious sustainability programme.

Hema Ravichander, ex-senior VP of HR at Infosys, claimed that there is a distinctive culture and value system at Infosys. She listed customer delight, leadership, integrity, fairness, and pursuit of excellence—as components of the Infosys culture. Flat organisation structure, open communication and information-sharing, and autonomy in decisionmaking characterised the intended corporate culture. Nurturing relationships is manifested in the fact that 98 per cent of its business is from existing clients. On the negative side, Infosys is perceived as a conservative company, with lower pay, strict watch over its employees' work hours and insisting on decorum and formality in dress and manners. Sikka, the new CEO, is of the view that the environment needs to be relaxed and made more employee-friendly workplace by allowing access to social networking, soliciting new business ideas, entertaining location transfers, and providing team lunches. 'We must create an environment of empowerment, mutual support and trust,' Sikka is reported to have written in an email to the employees. This is seen as a response to the higher than industry attrition rate of nearly 20 per cent while the industry norm is between 12 through 15 per cent. Sikka sensed disaffection among clients owing to the lack of innovation and ability to change among Infosys employees. In an interview to the media, Sikka said that the biggest challenge for Infosys in 2015 would be 'transforming ourselves culturally and operationally into a company driven by innovation, driven by delivering much more value add, more innovative services'. To achieve this, he said the company will need a 'serious change' in mindset, in its offerings and in operational processes.

Shibulal, during his tenure, had initiated the Infosys 3.0 strategy that consisted of cost optimisation, enhancing sales productivity, and improving delivery effectiveness. Murthy, taking over as non-executive chairman, tried to boost employee morale by hiking salaries, focusing on IT services as the 'bread-and-butter' business, and optimising costs and emphasising on revenue generation through building client relationship. Sikka has what is termed as the 'new and renew' approach to strategy. The renew part of strategy is to deal with organic growth by rebuilding existing businesses. The new part is aimed at inorganic growth through design thinking, artificial intelligence, automation, and internet of things, and acquisition of small, start-ups and innovative companies. Such strategic changes may require the company to adapt its structure and systems to ensure success. Speaking at an analyst meet, Sikka remarked that,'Transformation like the one we are on will take time. For sure, it will not happen in a short time...we at Infosys again can aspire to become leading bellwether IT company that we used to be over the long term'.[87]

Questions

1. Describe the leadership styles of Murthy and the active founders of Infosys and appraise whether these styles matched the requirements of the strategies the company adopted. **(LO 1)**
2. Conduct a quick internet search of employee review sites such as glassdoor.com and note down employee and ex-employee comments on politics within Infosys. Write down your conclusions regarding the state of corporate politics and use of power at Infosys. **(LO 2)**
3. Do you find a difference of approach in which the founders strived to build corporate culture at Infosys and how Sunil Sikka looks at culture within Infosys? Assess whether Sikka's approach to culture is likely to match the requirements of the strategy Infosys plans to implement in the coming years. **(LO 3)**
4. Suggest some means by which Infosys could further enhance corporate ethics and personal value among its employees. **(LO 4)**

Notes and References

1. Siemens Global at: *http://www.siemens.com/entry/cc/en/*; Siemens Global Annual Report 2014 at: *http://www.siemens.com/annual/14/en/download/pdf/Siemens_AR2014_At-a-glance.pdf;*
   Siemens India at: *http://www.siemens.com/answers/in/en/*; Siemens India Business Responsibility Report 2014 at: *http://www.siemens.co.in/pool/investor_relations/annual_report/siemens-limited-india-business-responsibility-report-fy14.pdf*; 'Siemens: Built to Last,' at: *http://businesstoday.intoday.in/story/oldest-mnc-in-india-siemens/1/194630.html*; 'Siemens Gets a New CEO with India Connection,' at: *http://www.businessworld.in/news/web-exclusives/siemens-gets-a-new-ceo-with-india-connection/1014169/page-1.html#sthash.Lq1EgGpQ.dpuf*; 'Germany vs. the U.S.: Who's Better at Corporate Culture?' at: *https://www.linkedin.com/pulse/20140820135334-18815582-germany-vs-the-u-s-who-s-better-at-corporate-culture*; 'German Corporate Culture Evolves Through Globalization,' at *http://www.nytimes.com/2008/06/09/business/worldbusiness/09iht-gcon.4.13581146.html?_r=0*; 'Lunch with BS: Sunil Mathur,' at: *http://www.business-standard.com/article/opinion/lunch-with-bs-sunil-mathur-md-ceo-siemens-ltd-114062701253_1.html* All websites retrieved January 14, 2015.
2. A. Miller and G.G. Dess, *Strategic Management,* 2nd ed. (New York: McGraw-Hill, 1996): 496.
3. M.A. Hitt, R.D. Ireland, and R.E. Hoskisson, *Strategic Management: Competitiveness and Globalization* (Mason, Ohio: Thomson South-Western, 2007): 376.

4. For more details on the academic and practical aspects of strategic leadership see these: S. Stringham, *Strategic Leadership and Strategic Management: Leading and Managing Change*(Bloomington, IN: iUniverse, 2012); J. Adair, *Strategic Leadership: How to Think and Plan Strategically and Provide Direction* (London: Kogan Page, 2010); and S. Finkelstein, D.C. Hambrick, A.A. Cannella, Jr., *Strategic Leadership: Theory and Research on Executives, Top Management Teams and Boards* (New York, NY: Oxford University Press, 2009).
5. There are several reviews of the theoretical developments in the subject of leadership. For a review of leadership theories see, for instance, R. Bolden, J. Gosling, A. Marturano, and P. Dennison, *A Review of Leadership Theories and Competency Frameworks* (Exeter, UK: Centre for Leadership Studies, University of Exeter, 2003).
6. R. Dubin, 'Metaphors of Leadership: An Overview,' in *Cross-currents in Leadership,* ed. J. G. Hunt and L. Larson (Carbondale, Ill.: Southern Illinois University Press, 1979).
7. D. Hambrick and A. Pettigrew, 'Upper Echelons: Donald Hambrick on Executives and Strategy,' *Academy of Management Executive,* 15, no. 3 (2001): 36–44.
8. Hitt, *et al.*, op. cit., 384–96, For seven functions of strategic leaders see J. Adair, *Strategic Leadership: How to Think and Plan Strategically and Provide Direction*(London: Kogan Page, 2010): 38–40.
9. P.J.H. Schoemaker, S. Krupp, and S. Howland, 'Strategic Leadership: The Essential Skills,' *Harvard Business Review* (January-February, 2013): 2–5.
10. W.R. Boulton, *Business Policy: The Art of Strategic Management* (New York: Macmillan, 1984): 18.
11. F. E. Fiedler, *A Theory of Leadership Effectiveness* (New York: McGraw-Hill, 1967).
12. Among the copious works of J.B.P. Sinha are: *The Nurturant-task Leader* (New Delhi: Concept Publishing, 1980); 'A Model for Effective Leadership Styles in India,'*International Studies of Management and Organization,* 14, no. 23 (1984): 86–98; 'A Model of Effective Leadership Styles in India,' In *Management in Developing Countries,* ed. A.M. Jaeger and R. M. Kanungo (London: Routledge, 1990); and *The Cultural Context of Leadership and Power* (New Delhi: Sage, 1995).
13. B.L. Maheshwari, *Decision Styles and Organisational Effectiveness* (New Delhi: Vikas Publishing House, 1980).
14. 'Korn/Ferry International – IMA India Leadership Study,' *Business Standard* (19 December, 2007 at *http://www.business-standard.com/general/storypage.php?&autono=308035*. Retrieved 19 January, 2008.
15. For a comparative context see H. Wanga, D.A. Waldmanb and H. Zhan: 'Strategic leadership across cultures: Current findings and future research directions,' *Journal of World Business,* 47, no. 4 (October, 2012): 571–80; and B. Gutierrez, S.M. Spencer, and G. Zhu, 'Thinking Globally, Leading Locally: Chinese, Indian, and Western Leadership', *Cross Cultural Management: An International Journal,* 19, no. 1 (2012): 67–89.
16. More recent works on leadership in the Indian context include: M.K. Srivastava, *Transformational Leadership* (New Delhi: Macmillan India, 2003); K. Jain, *Leadership Styles and Organisational Effectiveness: A Study of Selected Private Enterprises in India* (University of Delhi, Delhi: Publication Division, 2004); T. V. Rao, R. Rao, and S. Dixit, 'Transformative Empowerment: A study of Leadership Roles, Styles, Delegation, and Qualities of Indian CEOs,' in *Human Resource Development: Challenges and Opportunities*-ed. N. Rohmetra (New Delhi: Anmol Publications, 2005) and S. Kakar, S. Kakar, M.F. R.K. De Vries and P. Vrignaud, 'Leadership in Indian Organizations from a Comparative Perspective,' in *Management in India: Trends and Transition*, ed. H. J. Davis, S.R. Chaterjee & M. Heuer (New Delhi: Response Books, 2006); N. Jain and S. Mukherji, 'Communicating a holistic perspective to the world: Kautilya on leadership,' *Leadership & Organization Development Journal,* 30, no. 5 (2009): 435–54.; S. Nadkarni and P. Herrmann, 'CEO Personality, Strategic Flexibility, and Firm Performance: The Case of the Indian Business Processing Outsourcing Industry,' *Academy of Management Journal,* 53, no. 5, (October 2010): 1050–73.
17. Style-strategy matching is explored, for instance, in A. Gupta, 'Contingency Linkages between Strategy and General Manager Characteristics: A Conceptual Examination,' *Academy of Management Review,* 9 (1984): 399–412 and S. Slater, 'The Influence of Managerial Style on Business Unit Performance,' *Journal of Management*, 15 (1989): 441–55.
18. P. Khandwalla, 'Some Top Management Styles, Their Context, and Performance,' *Organization and Administrative Science,* 7, no. 4 (1976): 21–25.
19. T.J. Peters and R.H. Waterman, Jr., *In Search of Excellence* (New York: Harper & Row, 1982).

20. For an interesting account of how leadership development takes place in many well-known organizations in India see: 'Leadership Development in Organisations in India,' *Vikalpa,* 26, no. 4, (October– December, 2011) at *http://www.vikalpa.com/pdf/articles/2011/Pages-from-Vikalpa36-4-77-131.pdf.* Retrieved 10 November, 2014.
21. 'Businessman of the Year 1988: S. Moolgaokar of TELCO,' *Business India* (26 December–8 January, 1989): 54.
22. N. Menon, 'Skills Murthy, Mallya Need to Learn,' *The Economic Times* (20 June, 2006).
23. For more information on succession planning in Indian companies see: K. Ramachandran, *Indian Family Businesses: Their survival beyond Three Generations*, Working Paper Series, Indian School of Business at *http://encubeindia.com/uploads/indian_family_businesses.pdf*; S. Manikutty, 'Managing Succession,' *Business Today* (15 May, 2011) at *http://businesstoday.intoday.in/story/family-businesses-succession-in-india/1/15177.html.*; P. Yadav and J. Singh, 'Family-owned Businesses: Issues Related to Succession Planning,' at *http://vslir.iimahd.ernet.in:8080/xmlui/bitstream/handle/123456789/11510/FB-PP-313-FAMILY_OWNED_BUSINESSES-241-Singh_b.pdf?sequence=1.* Retrieved 31 October, 2014.
24. A. Sharplin, *Strategic Management* (New York: McGraw-Hill, 1985): 141.
25. J.R.P. French and B. Raven,'The Bases of Social Power,' in *Group Dynamics,* ed. D. Cartwright and A.F. Zander (Evanston, Ill: Row Peterson, 1960): 607–23.
26. J. Pearce,*Organization and Management in the Embrace of Government* (Mahwah, NJ: Erlbaum, 2001).
27. J. Pandey, 'Socio-cultural perspectives on ingratiation,' *Progress in Experimental Personality Research*, 14, (1986): 205–29.
28. P. Kumar and R. Ghadially, 'Organizational Politics and Its Effects on Members of Organizations,' *Human Relations,* 42, (1989): 305–14.
29. S.M. Spencer, T. Rajah, G. Lahiri, S.A. Narayan, and S. Mohan, *The Indian CEO: A Portrait of Excellence* (New Delhi: Response Books, Sage Publications, 2007).
30. S. K. Sharma, S.Bharatwal, and S. Dhamija, 'Corporate Power and Politics at Strategy Implementation in Indian Companies,' *JIM Quest: Journal of Management and Technology*, 8, no. 2 (July–December, 2012): 14–18.
31. D. Thakore, 'The Green-eyed Monster: The Envy Syndrome in Indian Industry,' *Business World* (13–26 April, 1987): 44–54.
32. A.J. Hillman and M.A. Hitt, 'Corporate Political Strategy Formulation: A Model of Approach, Participation and Strategy Decisions,'*Academy of Management Review*, 24, (1999): 825–42.
33. Accounts of the inner working of politician-government nexus are hard to come by; what is in public domain is controversial. See for instance, P. G.Thakurta, S. Ghosh,and J. Chaudhuri, *Gas Wars: Crony Capitalism and the Ambanis*, 2014. A review can be read on the authors' website at *http://www.gaswars.in/about-the-book.html.* Retrieved 31 October, 2014. Other books on this subject are T. Bandopadhyay, *Sahara: The Untold Story* and J. Bhargava, *The Descent of Air India.* The authors of these books have been served legal notices by the aggrieved parties.
34. N. Dahan, 'Can there be a Resource Base View of Politics?' *International Studies and Management and Organizations,* 35 (2005): 8–27.
35. H. Mintzberg, 'The Effective Organization: Forces and Forms,' *Sloan Management Review,* 32 (Winter 1991): 54–67.
36. A. Zaleznik, 'Power and Politics in Organizational Life,' *Harvard Business Review*, 48, no. 3 (May–June, 1970): 47–60.
37. A. A. Thompson, Jr. and A. J. Strickland III, *Strategic Management: Concepts and Cases* (Plano, Texas: Business Publications, 1984): 260.
38. J.B. Quinn, *Strategies for Change: Logical Incrementalism* (Homewood, IL.: Richard D. Irwin, 1980): 119.
39. H. Schwartz and S.M. Davis, 'Matching Corporate Culture and Business Strategy,' in G.A. Steiner, J.B. Miner, and E.R. Gray: *Management Policy and Strategy,* 2nd ed. (New York: Macmillan, 1982): 475–93.
40. J.A. Pierce II and R.B. Robinson, Jr., *Strategic Management – Strategic Formulation and Implementation,* 3rd. ed. (Homewood, IL.: Richard D. Irwin, 1988): 382.
41. V. Sathe, *Culture and Related Corporate Realities* (Homewood, IL.: Richard D. Irwin, 1985): 18.
42. Pearce II and Robinson Jr., op. cit*.*, 385.
43. B. Arogyaswamy and C. M. Byles,'Organizational Culture: Internal and External Fits,' *Journal of Management,* 13 (1987): 647–59.
44. The major contribution to the typology of cultures is from: R. E. Quinn and J. Rohrbaugh, 'A Competing Values Approach to Organizational Effectiveness,' *Public Productivity Review,* 5 (1981): 122–40; R.

E. Quinn and J. Rohrbaugh, 'A Spatial Model of Effectiveness Criteria: Towards a competing values approach to organizational analysis,' *Management Science,* 29, (1983): 363–37; R.E. Quinn and J. R. Kimberly, 'Paradox, Planning and Perseverance: Guidelines for Managerial Practice,' in *Managing organizational transitions* ed. J. R. Kimberly and R.E. Quinn (Homewood, IL: Dow Jones-Irwin, 1984): 295–313.; K.S. Cameron and R.E. Quinn, *Diagnosing and Changing Organizational Culture: Based on the Competing Values Framework* (Reading, MA: Addison-Wesley, 1999).

45. J.W. Lorsch,'Managing Culture: The Invisible Barrier,' in D. J. McCarthy, R.J. Minichiello and J.B. Curran, *Business Policy and Strategy: Concepts and Readings,* 4thed. (Homewood, IL.: Richard D. Irwin, 1988): 436.
46. Pearce and Robinson, op. cit.
47. T.E. Deal and A.A. Kennedy, *Corporate Cultures* (Reading, M.A.: Addison-Wesley, 1982): 22.
48. Traits exhibited by organisations having weak or unhealthy characteristics are described in Chapter 6 of J.P. Kotter and J.L. Heskett, *Corporate Culture and Performance* (New York: Free Press, 1992)
49. A.A. Thompson, Jr. and A.J. Strickland III, *Strategic Management: Concepts and Cases,* 8thed. (Chicago: Richard D. Irwin, 1995): 295.
50. J. Kapahi, 'A Behavioural Guide to the Upwardly Mobile Executive,' *Business World* (6-19 July, 1987): 3–4.
51. M.N. Panini, 'Corporate Culture in India,' *Economic and Political Weekly* (27 August, 1988): M86–M93.
52. K.A. Anantharaman, 'On the Future of Family Businesses,' *domain-b.com*(20 November, 1999) at *http://www.domain-b.com/people/interviews/19991120anand_mahindra.htm*. The comment quoted is by Anand Mahindra, MD of Mahindra & Mahindra Limited, the flagship company of the Mahindra group.
53. G. Piramal, 'All Change,' *Business Strategy Review,* 17, no. 2 (Summer, 2006): 56–61.
54. J. Mathew, E. Ogbonna, and L.C. Harris, 'Culture, Employee Work Outcomes and performance: An empirical analysis of Indian software firms,' *Journal of World Business*, 47, no. 2 (April 2012): 194–203.
55. J.B. Barney, 'Organizational Culture: Can it be a Source of Sustained Competitive Advantage?'*The Academy of Management Review,* 11, no. 3 (1986): 656–65.
56. E.H. Schein,*Organizational Culture and Leadership,* 3rd ed. (San Francisco: Jossey-Bank Publishers, 2004): 91.
57. L.A. Kreftingand P.J. Frost, 'Untangling Webs, Surfing Waves, and Wildcatting: a Multiple-Metaphor Perspective on Managing Culture,' in *Organizational Culture*, ed. P.J. Frost, *et al.* (Beverly Hills, CA: Sage, 1985).
58. E. Ogbonnaand L. C. Harris, 'Leadership Style, Organizational Culture and Performance: Empirical Evidence from UK Companies,' *International Journal of Human Resource Management*, 11, no. 4 (2000): 766–88.
59. B. Gupta, 'A Comparative Study of Organizational Strategy and Culture Across Industry,' *Benchmarking: An International Journal,* 18, no. 4 (2011): 510–28.
60. H. Singh and G.R.B. Chalil, 'Perceived Differences in Culture, Environmental Hostility and Firm Performance: A Study of Indian Organizations Using Competing Values Framework,' available at *http://115.111.81.83:8080/xmlui/bitstream/handle/123456789/11529/OS-PP-312-Perceived_Differences_in_Culture,_Environmental_Hostility_and_Firm_Performance-310-Singh_b.pdf?sequence=1&isAllowed=y.* Retrieved 1 November, 2014.
61. Schwartz and Davis, op. cit*.,* 487.
62. S. K. Bhattacharya,'The Culture Ripple Effects of Takeovers and Acquisitions,'*Business World* (29 February–13 March, 1988, 48–49.
63. L.N. Nash, *Good Intentions Aside: A Manager's Guide to Resolving Ethical Problems* (Boston: Harvard Business School Press, 1990).
64. T.M. Garrett, *Business Ethics* (Bombay: The Times of India Press, 1970).
65. W.D. Guthand R. Tagipuri, 'Personal Values and Corporate Strategies,' *Harvard Business Review,* (September–October, 1965): 44–54.
66. C.R. Christensen, K.R. Andrew, J.L. Bower, R.G. Hamermesh, and M.E. Porter, *Business Policy: Text and Cases,* 5th ed. (Homewood, IL.: Richard D. Irwin, 1982): 363.
67. R.M. Lala,*The Creation of Wealth* (Bombay: IBH Publishing, 1981): 198.
68. S. Worden, 'The Role of Religious and Nationalist Ethics in Strategic Leadership: The Case of J. N. Tata,' *Journal of Business Ethics,* 47, no. 2 (October, 2003): 147–64.
69. 'A Rich Rubric of Ethics,' Article available on Tata group's website at *http://www.tata.com/0_our_commitment/corporate_governance/overview.html.* Retrieved 21 January, 2008.

70. S. Worden, op.cit.
71. For further reading, see the websites of these international organisations to see how the indices related to corruption and ability to deal with it are measured and ranked. See Transparency International's ranking at: *http://cpi.transparency.org/cpi2013/results/* and the Global Integrity Index ranking of 2007 at: *http://report.globalintegrity.org/globalindex/results.cfm.* Retrieved 10 May, 2014.
72. For a detailed exposition of factors affecting personal values and business ethics in the Indian context see A. Kazmi,'Ethics and Professional Values in Business and Industry in India,'*Paradigm,* 1, no. 2 (1998): 86–93.
73. D.A. Ralston, et al, 'How do you Climb the Corporate Ladder? A Multiregional Analysis of the Ethical Preferences forInfluencing Superiors,' Paper presented at the *Academy of Management Annual Meeting*, Honolulu, HI, 2005.
74. J.S. Chhokar, 'India: Diversity and Complexity in Action,' in*Culture and Leadership Across The World: The GLOBE Book of In-Depth Studies of 25 Societies,* ed. J.S. Chhokar, F.C. Brodbeck, and R.J. House (Mahwah, NJ: Lawrence Earlbaum, 2007): 971–1020.
75. D. Thakore,'How Corrupt is Indian Industry?' *Business World (*11–24 May, 1987): 58–67.
76. Peters and Waterman, op. cit., 359.
77. Christensen, *et al.*, op. cit. 359.
78. M. Chakravarty, 'CEOs are Human too,' *Business World* (20–26 March, 2007).
79. D.C. Hambrickand P.A. Mason: 'Upper Echelons: The Organization as a Reflection of its Top Managers,' *Academy of Management Review,* 9, (1984): 193–206. Also see: S. Finkelstein, D. C. Hambrick, and A.A. Cannella, Jr., *Strategic Leadership: Theory and Research on Executives, Top Management Teams and Boards* (New York, NY: Oxford University Press, 2009) for more matter on the idea that top-level managers are guided by their own personal qualities in guiding organisations to their destinies.
80. E. Pio, 'HRM and Indian Epistemologies: A Review and Avenues for Future Research,'*Human Resource Management Review,* 17, no. 3 (September, 2007): 319–35.
81. P.M. Fitter, 'Risk Management: Margin of Safety,' *Business World* (30 July, 2007).
82. J.D. Margolis and J.P. Walsh, *People and Profits? The Search for a Link between a Company's Social and Financial Performance* (Mahwah, N.J.: Lawrence Erlbaum Associates, 2001).
83. D. Parekh,'The Business of Ethics,' *Indian Management*, 36, no. 4, 1997.
84. For understanding how ethics can be a part of managerial activities through a practical framework see, for instance, K. Blanchard and N.V. Pearle, *The Power of Ethical Management* (New York, NY: William Morrow, 1988) and F. Aguilar, *Managing Corporate Ethics* (New York: Oxford University Press, 1994). A non-profit organization called Ethics Resource Centre offers assessment of ethical risk and effectiveness of ethical programs as well as development and improvement of ethical programs. For more information on Ethics Resource Centre see *http://www.ethics.org/*. Retrieved 11 January, 2008.
85. Thompson and Strickland, op. cit., 299–300.
86. Christensen, *et al.*, op. cit., 89.
87. Company website at *http://www.infosys.com/about/*;Infosys Annual Report 2013-2014 at *http://www.infosys.com/investors/reports-filings/annual-report/annual/Documents/Infosys-AR-14.pdf*; 'Infosys at the Crossroads,' at *http://knowledge.insead.edu/business-finance/finance-markets/infosys-at-the-crossroads-2546#SFFRXxO0u5BapZWc.99*; 'Sikka's New Mantra: Infosys Employees Can Use Facebook, Twitter at Work But Get Job Done,' at *http://www.firstpost.com/business/corporate-business/sikkas-new-mantra-infosys-employees-can-use-facebook-twitter-at-work-but-get-job-done-1991811.html*; 'Bringing a Cultural Shift to Infosys is Biggest Challenge in 2015: Sikka,' at *http://www.business-standard.com/article/companies/bringing-a-cultural-shift-to-infosys-is-biggest-challenge-in-2015-sikka-114122600296_1.html*; 'The Recoding of Infosys' at *http://www.thehindu.com/business/Industry/the-recoding-of-infosys/article6070417.ece*; 'Infosys Shifts Focus to Small Acquisitions, New Segments,' at *http://businesstoday.intoday.in/story/infosys-focus-on-small-buys-new-segments-vishal-sikka/1/213166.html*; 'Working with Infosys – My experiences (blog) at *http://www.rahulspeaks.com/2011/02/working-with-infosys-my-experience/*; Sunil Sikka's personal blog at *http://vishalsikka.blogspot.in/*. All websites retrieved 30 December, 2014.

13
CHAPTER

Functional and Operational Implementation

Learning Objectives

After reading this chapter you should be able to:

LO 1 Explain the nature, need and development of functional plans and policies and recognise the relevance of vertical fit and horizontal fit to functional strategies
LO 2 Describe and illustrate financial plans and policies
LO 3 Describe and illustrate marketing plans and policies
LO 4 Describe and illustrate operations plans and policies
LO 5 Describe and illustrate personnel plans and policies
LO 6 Describe and illustrate information management plans and policies
LO 7 Discuss the considerations in and mechanisms for integration of functional plans and policies
LO 8 Review four areas of operational effectiveness and techniques used in each of them and illustrate the application of these techniques by managers

Chapter Outline

Preview Case

IMPLEMENTATION OF FUNCTIONAL PLANS AND POLICIES AT MRF LIMITED*

The Chennai-based Madras Rubber Factory (MRF) Ltd. is a leading tyre company of India, established in 1946, belonging to the Mappillais group. Its product range includes bias play and radial tyres, pre-treads, paints, and coats and toys. Its revenue was nearly Rs. 13,200 crore and net profit was Rs. 900 crore in the financial year ending September 2014. It has nine manufacturing units.

The major competitors of MRF are Apollo Tyres, Balkrishna Industries, Ceat, and J. K. Tyres. Duty reduction on imported tyres to 10 per cent had enabled Chinese manufacturers to capture 10 per cent of replacement market with cheap and low-quality tyres. The Indian tyre industry having 39 companies has two strategic groups: the top 10 large companies including Indian companies, Indian companies having overseas presence and multinationals, that account for 90 per cent of sales and the medium-sized companies. There are three market segments in terms of end users: original equipment manufacturers, aftermarket or replacement market, and exports and six in terms of product lines of two-wheelers, passenger cars, trucks and buses, tractors, light commercial vehicles, and aircraft tyres.

The strategies adopted by the company have been consistent over the years and are of stable expansion and minor diversifications into toys and specialty paints making it a sharply-focussed company. It has made consistent greenfield investments over the years. The company had plans in 2015 to investing Rs. 4,000 crore over 3 years to expand capacity, to sustain long-term growth.

The main features of the functional plans and policies at MRF Ltd. are described as follows:

Financial area: MRF follows a conservative financial policy. It is undercapitalised with a low equity base. It depends to the maximum extent on internal funds and has avoided substantial stake by financial institutions. Its plan, announced in 2015, to invest Rs 4,000 crore is to be internally financed. The cost management and pay-outpolicy of the company is stringent. Since it operates in a competitive market, losses on sales margins are made up by assets-usage efficiency and financial leverage. MRF is a consistent dividend payer to its shareholders. Financial systems are largely institutionalised. High inventories act as buffers against fluctuations in raw materials especially natural rubber prices.

Marketing area: MRF excels in the marketing area thanks to its founder, the late Mammen Mapillai who had a knack for marketing and adopted an aggressive and proactive policy. MRF claims to heed its customer, understanding consumer behaviour for product designing, entering new markets, and building a price-insensitive brand. Improvements in product quality are brought through in-house as well as foreign technology. As a result, MRF is rated highly on customer satisfaction and branding. The company follows a product policy where it believes that each product should create its own profit. There has been a shift in the product mix with greater emphasis on tyres for car and the two-wheeler segments. Export is a thrust area; it exports to 75 countries. Regarding prices, it follows a policy of holding prices and discouraging discounts. The company adopts a systematic approach to advertising and promotion. There is a greater emphasis on television advertising. Besides, the media mix has print, outdoor, Internet, and below-the-line activities like mailers and point-of-purchase displays. Promotion is based on personal contact with truck operators and effective after-sales service along with customer counselling. The corporate mascot is a ‘muscleman’ that is designed to project strength, reliability, and durability. The distribution policy is to focus on dealers as an important market linkage. Sales are impressive in the commercial vehicle, car radial, and two-wheeler segments. There is a vast dealer network of and some exclusive distribution outlets have also been opened. Overall, MRF is considered to be market leader in the

Indian tyre industry with a major share coming from the aftermarket segment. Analysts are of the view that MRF has scale, strong brand recall, higher pricing power, and a better product mix.

Operations area: The operations policy of MRF is to expand tyre manufacturing capacity and avoid backward integration. Typically, raw materials make up nearly 70 per cent of cost with natural rubber being the major component. High rubber prices are the bugbear of the tyre industry so have to be managed very carefully. There is efficient shop floor management, advance planning for supply of raw materials, economies of scale benefits through large-volume production, and high emphasis on quality control. High standards are maintained in process control and product testing. Total Productivity Management (TPM) has been adopted. To promote the TPM culture, the employees were continuously encouraged to adopt Kaizen principles. Radial tyre technology had been sourced from its erstwhile technical alliance with Michelin of France. The research and development (R&D) policy is aimed at modifying and adapting tyre technology to conform to the requirements of Indian road conditions. Research and development laboratories at units, a laboratory for natural rubber at Kottayam are coordinated centrally. Research and development functions are well-staffed with around 300 engineers at the R&D and product development division.

Personnel area: The personnel policy is development-oriented. Managers down the line are provided systematic exposure to technology. There are product managers for each category of tyres. Empowerment to departmental heads is encouraged. The effort of the company has been to change its perception of being a low-profile organisation to that having a new image and corporate identity. The style of management is professional and policy matters are decided by the top management while day-to-day affairs are left to professional managers. Senior leadership programmes prepare strategic leadership for MRF. Executive and management development programmes are offered for middle management. Operatives are trained and recruited through Nettur Technical Training Foundation (NTTF). Cross-functional teams from different units contribute to suggestions leading to cost efficiency and productivity improvements. MRF is a multi-plant company and disruption of production is avoided if work stoppage occurs at some of its plants. Its' Kottayam and Arakonam plants have faced occasional stoppages of work and strikes.

Information management area: Contrary to general trend, information technology (IT) is not a hyped area at MRF. Information technology needs are determined on the basis of cascading customers' requirements into what kind of inventories and delivery and IT systems are required to support and cater to marketing demand. The company has an Oracle Enterprise Resource Planning (ERP) suite deployed across all departments. It had being extended to cost measures and controls as well as maintenance functions. It has also adopted information security network framework and has security policies in place to prevent unauthorised access and use.

The MRF is on the road to success with its market share improving to 29 per cent in 2014 as compared to 25 per cent in 2010. Falling oil prices are expected to lower the prices of its major inputs and increasing supplies to original equipment manufacturers are factors likely to contribute to continued growth.[1]

Organisations are complex entities. As you might have studied in your introductory course in management, organisations are systems having sub-systems. In the case of business organisations these sub-systems are often their functional departments such as marketing and operations. In the preview case on MRF, observe how the company formulates its functional plans and lays down its functional policies. Some of you might feel that the company is focusing more on marketing and operations while neglecting finance and information management. Some others among you might justify that there is no harm in doing so as it meshes well with the nature of market that MRF serves. Yet, there might be others who feel that there is lack of balance among the various functional areas in this case. This variation in opinion is an indication of the complexity of the functional strategies that organisations follow.

We are concerned first with functional implementation in this chapter. Then we would take up operational implementation. We have selected five functional areas where the plans and policies are implemented. These are the familiar areas of finance, marketing, operations, personnel, and information management. Operational implementation is done in four areas of operational effectiveness. Here we focus on operational implementation in terms of the 4-Ps of operational effectiveness areas of productivity, processes, people, and pace. Let us start with an introduction to functional strategies.

13.1 FUNCTIONAL STRATEGIES, PLANS AND POLICIES LO 1

Functional strategies are carried out through functional and operational implementation. Functional implementation is done through functional plans and policies in different functional areas. This section discusses functional strategies and then the functional plans and policies.

Functional Strategies

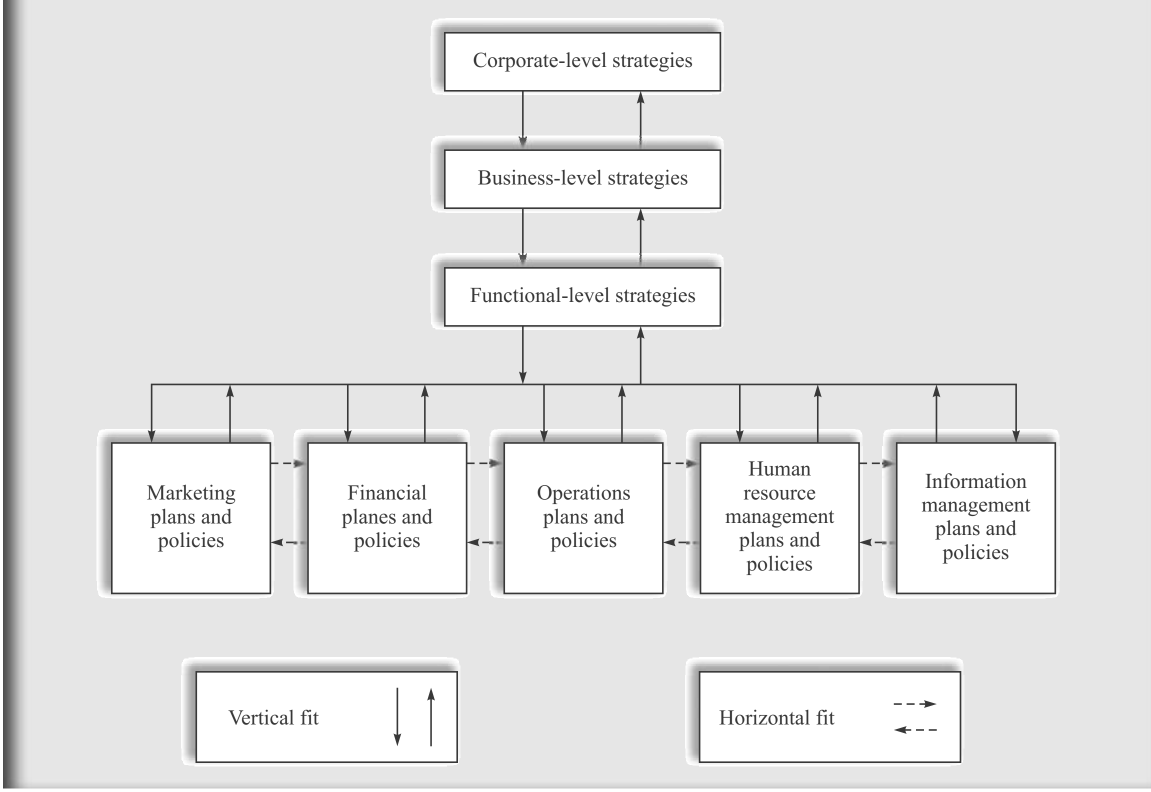
Functional strategy deals with a relatively restricted plan designed to achieve objectives in a specific functional area, allocation of resources among different operations within that functional area, and coordination among different functional areas for optimal contribution to the achievement of the business- and corporate-level objectives. Functional strategies are derived from business and corporate strategies and are implemented through functional and operational implementation.

An example will serve to make you understand how functional strategies are derived from business strategies. Suppose a firm adopts the cost leadership business strategy for one of its businesses. All activities and resources should now be focussed on developing low-cost products and reducing cost of operations. When all the functional areas of marketing, finance, operations, personnel, and information management contribute, in their own special ways, to the objectives of developing a low-cost structure and reducing cost then the business strategy of cost leadership is likely to be successful. Again, if a differentiation business strategy is adopted then all the functional areas should focus on creating differentiation in terms of product or service that is valued by the customer. They can do this, for instance, by aligning to develop better quality or creating innovative products and services.

A key task of strategy implementation is to align or fit the activities and capabilities of an organisation with its strategies. Strategies operate at different levels and there has to be congruence and coordination among these strategies. Such congruence is the *vertical fit*. Then, there has to be congruence and coordination among different activities taking place at the same level. This is the *horizontal fit*. Exhibit 13.1 shows the nature of vertical fit and horizontal fit and how they exist in the framework of strategies.

Vertical fit When a lower level strategy such as functional strategy is aligned with the higher level strategy, in this case the business strategy, vertical fit takes place. The consideration of vertical fit leads us to defining functional strategies in terms of their capability to contribute to creating strategic advantage for the organisation. In other words, any functional strategy becomes strategic when it is vertically fitted to the upper-level business and corporate strategies. Looked at this way, we could have the functional strategies of strategic marketing management or strategic human resource management. We will consider s*trategic marketing management*as focussing on the alignment of marketing management within an organisation with its business and corporate strategies to gain strategic advantage. Similarly, s*trategic human resource management* is focussing on the alignment of HRM within an organisation with its business and corporate to gain strategic advantage.

Exhibit 13.1 Vertical Fit and Horizontal Fit



Horizontal fit The vertical fit alone is not sufficient to integrate the strategic network. It is also essential to create a horizontal fit at the level of individual functional strategies. What this means is that the different functional areas of marketing, finance, operations, personnel, and information management should be integrated. The operational activities performed in each of these areas should also be integrated. For example, personnel should be integrated with finance and marketing. Within personnel or HRM the operational activities such as recruitment and selection, training and development, performance appraisal, and compensation management should also be integrated.

Vertical fit calls for functional plans and policies and their integration. Horizontal fit requires operational implementation.

Operational implementation is the approach adopted by an organisation to achieve operational effectiveness. When an organisation performs value-creating activities optimally and in better way than its competitors can perform it results in operational effectiveness. These activities may begin with the procurement of basic raw materials and go through processing in various stages right up to the end products marketed to the ultimate consumer.[2]

In most organisations, the value-chain activities are dispersed among the different functional areas to be performed by organisational units like departments. For instance, marketing department is typically responsible for three of the five primary value-chain activities of outbound logistics, marketing and sales, and service. Operations department usually perform the two other activities of inbound logistics and operations. The support value-chain activities involve several other departments. For example, procurement generally is placed with the operations department but all departments may be procuring items regularly. Technology development may primarily be the function of the R & D department, but an organisation may structure it in such a way that it is placed under the operations department. All departments deal with finance and HRM functions but specialised departments of finance and accounting and HRM are usually there to deal with these activities. So, value-chain classification and the departmental segregation match to an extent. Value chain binds the disparate activities that different departments perform much in the manner that horizontal fit does. Additionally, the ideas of vertical fit and horizontal fit help us to explain why integration is necessary for the different subsets of functional strategies.

Reading about vertical and horizontal fit some of you may recall the concept of synergy. Synergy is the idea that the whole is greater or lesser than the sum of its parts. It is also expressed as 'the two plus two is equal to five or three effect'. The concepts of vertical and horizontal fit are quite like that of synergy. The notion of fit actually leads to synergy. For instance, synergy may occur when there is a high level of vertical fit between the functional and business strategies. Synergy may also result as a fortuitous and beneficial horizontal fit among the different functional areas.

Just like corporate and business strategies, functional strategies are not implemented directly. For effective implementation, strategists have to provide clear directions to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented through clearly-stated functional plans and policies. Further, in this section, we see the nature of functional plans and policies, why they are needed, and how they are developed.

Nature of Functional Plans and Policies

As we have already seen functional strategies operate below the business strategies. Within functional strategies there might be several sub-functional areas. Thus, a company might have a textile division, among its several business areas. Within the textile division, there might be functional areas such as marketing, operations, and R & D. Further, the functional areas of marketing may have sub-functions such as product development, advertising and sales promotion, and market research.

Functional strategies defined in terms of functional plans and policies—plans and tactics to implement business strategies—are made within the guidelines set at higher levels. Plans are made to select a course of action while policies are required to act as guidelines to action. Functional plans and policies, therefore, are in the nature of tactics to make a strategy work.

Functional managers need guidance from the corporate and business strategies in order to make decisions. Functional plans tell the functional managers what has to be done while functional policies state how the plans are to be implemented.

Need for Functional Plans and Policies

Glueck suggests five reasons why functional plans and policies are needed. Functional plans and policies are developed to ensure that:[3]

1. The strategic decisions are implemented by all the parts of an organisation;
2. There is a basis available for controlling activities in the different functional areas of business;
3. The time spent by functional managers in decision making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken;
4. Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers; and
5. Coordination across the different functions takes place where necessary.

Development of Functional Plans and Policies

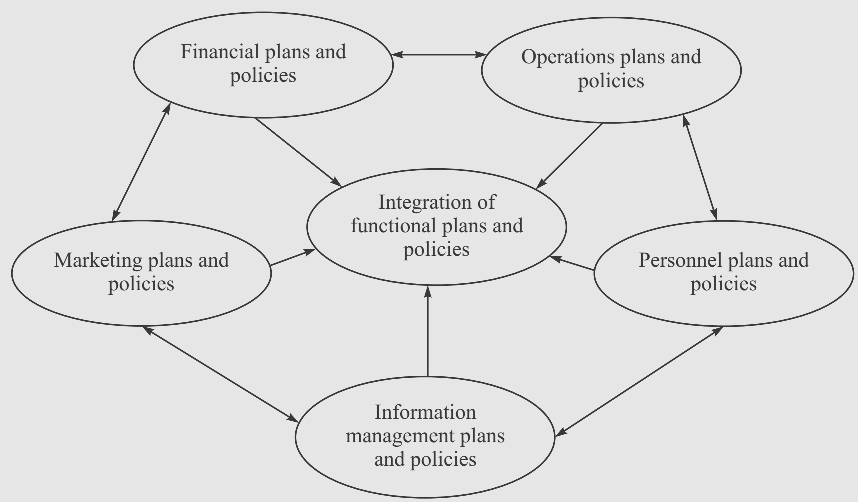
The development of functional plans and policies is aimed at making the strategies formulated at the top management level practically feasible at the functional level. Strategies need to be segregated into viable functional plans and policies that are compatible with each other thereby augmenting the horizontal fit. In this way, strategies can be implemented by the functional managers.

The process of development of functional plans and policies may range from the formal to informal. Larger and more complex organisations may have several hundred policies related to every major aspect. Many of these policies could have been formulated through the formal process and laid down in company manuals and documents. Smaller organisations with simpler businesses may operate with a few policies most of which could be informal and understood rather than written down.

The process of development of functional plans and policies—whether formal or informal—is similar to that for strategy formulation. Environmental factors relevant to each functional area have an impact on the choice of plans and policies. Organisational plans and policies affect the choice of functional plans and policies. Finally, the actual process of choice is influenced by objective as well as subjective factors. Functional plans and policies affect, and are affected by, the resource allocation decisions.

In the remainder of this chapter we take up a discussion of the important aspects of each functional area for which plans and plans policies may be needed. The discussion will be guided by the functional capability factors that were identified in Section 5.2. Before going ahead, readers may find it useful to briefly review that section. After describing the various types of functional plans and policies we shall then tell you how integration of the functional plans and policies has to be done for the sake of consistency and compatibility. Exhibit 13.2 makes it clear what configuration of functional plans and policies we have in mind here. We shall end this chapter with a section on operational implementation.

Exhibit 13.2 The Configuration of Functional Plans and Policies



But before we move to the next section, two points have to be noted. First, functional areas have been traditionally segregated into finance, marketing, production, and personnel. Information management too has emerged as a significant function within organisations. So, we follow this pattern of classification in subsequent discussions. But it must be kept in mind that not all organisations divide functional areas traditionally;

they do it on the basis of what they actually need. For instance, service organisations have a different set of functional areas. Secondly, the discussion of functional plans and policies that follows is only indicative and not exhaustive. This is understandable because functional managers in each area would formulate plans and policies in greater detail than we can possibly do here. You must also be reading about these functional areas in other courses in the curriculum of your management degree/diploma programme. Therefore, for each functional area, only the major issues and decisions have been highlighted.

13.2 FINANCIAL PLANS AND POLICIES

LO 2

The financial plans and policies of an organisation are related to the availability, usage, and management of funds. Strategists need to formulate plans and policies in these areas so that strategies are implemented effectively. We discuss below each of these plans and policies areas and point out the significant decisions that have to be taken.

Sources of Funds

Plans and policies related to the sources of funds deal with financing or capital mix decisions. The major factors regarding which plans and policies have to be made are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks, and financial institutions. Plans and policies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Exhibit 13.3 looks at the financial plans and policies at a highly regarded private sector company in India that has been known for its financial prudence in the past.

Exhibit 13.3 Financial Plans and Policies at Hindalco

Hindalco is the metals behemoth of the AV Birla group established in 1958 and based at Renukoot in the Mirzapur District of Uttar Pradesh. With a 2014-turnover of nearly US $ 15 billion, it is a leader in the aluminium and copper sector of the global metals industry with plants located in 34 locations spread over four continents and 11 countries.

The corporate strategies at Hindalco are of vertical integration and growth through acquisitions both nationally and internationally. The business strategies are aimed at leadership positions in its major three businesses of aluminium, copper, and mines. The company's aluminium units cover the entire value chain from bauxite mining through downstream rolling, extrusions, foils and alloy wheels. It has captive power plants, aluminium being a power-intensive industry, and coal mines to supply fuel for the power plants. In the copper business, the company's Birla Copper Unit at Dahe, Gujarat is the world's largest single location copper smelter backed by captive power and oxygen plants. The mining business deals with non-renewable sources of ores so requires continual tapping of opportunities worldwide.

The financial policies at Hindalcoare guided by its vision to be a market leader through global cost competitiveness in the non-ferrous metals industry. The nature of the commodity business that Hindalco is in require it to maximise cash generation to deal with the cyclical nature of business making it carry large reserves and free cash flows.

The nature of the financial policies at Hindalcois designed to be essentially prudent for investments in acquisitions, continual expansion, and modernisation of facilities. The theme of prudence in financial policies is reflected in all the phases financial management at Hindalco whether the sources of funds, usage of funds or management of funds. Growth plans are funded through internal accruals keeping the company under-leveraged with low debt-equity ratio and a healthy interest cover, maintaining high credit rating to avail opportunities in capital and debt markets to reduce cost of capital, effective working capital management, managing financial risks proactively, and deploying a robust monitoring and management information system.

The outcomes of the financial policies have served to make Hindalco one of the better financially managed companies. There have been high returns of capital employed, healthy cash flows, strong liquidity, and high cash surplus. Liquid funds are invested regularly in portfolio of varying maturities locking them through competitive pricing into the capital and debt markets.

Hindalco's acquisition of Novelis, the Canadian offshoot of Alcan, at US$ 6 billion however had created some concern. Many analysts considered the deal as unfair with Birlas paying a high price to acquire Novelis and the way how the acquisition was financed by incurring huge debt and cash investments. This was considered as contrary to Hindalco's stance on investments in the past. The company did feel the pressure and had to restructure its capital expenditure in India and had to close down some plants of Novelis abroad. Subsequently the company has started to rely on debt financing for its expansion plans such as the Mahan Aluminium and Utkal Alumina.

Overall, financial policies seem to have a good horizontal fit with the other functional policies as well as vertical fit with the higher level strategies of the company providing it the much-needed long-term stability in a highly cyclical industry.

Sources: K. Gopalan, 'Birla's Global Gambit,' *Business Today* (11 March, 2007):80–87; M. Anand: 'The Scary (untold) Story,' *Business World* (23 February, 2007); and Hindalco's website at *http://www.hindalco.com/milestones*. Retrieved 4 November, 2014.

Organisations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowing, another may follow a policy of internal financing. Ingersoll-Rand Ltd. adopted a conservative policy for its strategies of expansion and growth by ploughing back profit reducing dependence on borrowed funds and keeping interest cost low.Sudarshan Chemicals relied entirely on internal accruals to finance its expansion and diversification plans. For technology upgradation for pigment manufacturing it adopted a capital-mix of internal accruals and term loans.

Take the illustration of Larsen & Toubro (L&T) to observe how unique circumstances create special needs for financing. Being primarily in construction and engineering services related to commercial projects it needs long-term financing. The range of sources of financing has shrunk over the years with development financing institutions such as Industrial Development Bank of India (IDBI) and Industrial Credit and Investment Corporation (ICICI) converting to banks. As a matter of financial policy, L&T decided to adopt a highly structured approach to long-term project financing looking into new sources of funds such as external commercial borrowing and foreign currency loan.[4] Accessing off-shore financial sources, Max India Ltd. raised funds through a qualified institutional placement. It also took loans from the World Bank's funding arm, International Finance Corporation (IFC) to expand its healthcare business.

Family-owned as well as professionally-managed companies in India have witnessed an increase of owners' stakes through different means such as conversion of warrants, preferential allotment and issue, market purchase, or transfer of shares. Many family and professional groups such as Bajaj, Birla, Ambanis, Mallya, and Biyani of Pantaloon have increased their stakes in their own businesses. While some see it as greater confidence by the owners in their companies, others are of the view that it is done to increase their own net worth when they can dilute their holdings later at a profit, to exercise greater control, or to untangle cross-holdings.[5]Typically, domestic and multinational firms in India differ with the domestic firms having higher debt in their capital structure.

Usage of Funds

Plans and policies for the usage of funds deal with investment or asset-mix decisions. The important factors regarding which plans and policies are to be made are: capital investment; fixed asset acquisition; current assets; loans and advances; dividend decisions; and relationship with shareholders. Usage of funds is important since it relates to the efficiency and effectiveness of resource utilisation in the process of strategy implementation.

Implementation of projects in pursuance of expansion strategies typically results in increase in capital, work-in-progress, and current assets. If plans and policies are not clear, the usage of funds is inefficient, leading to less than optimum utilisation of resources.

Here is an illustration of how an organisation attempts to make judicious use of financial resources. West Coast Paper Mills Ltd., a mid-size player in the paper industry, had Ballarpur Industries as the market leader. The company had been prudent in its capital investments over the years but went in for doubling its capacity. The aim was to bring the plant capacity to global size. It placed orders for more than 75 per cent of the project cost for acquiring fixed assets. Increasing pulp capacity was crucial for paper manufacturing and here the company achieved success in harnessing its captive plantation through increased yields. Cost cutting in power consumption, manufacturing, and maintenance were the other measures adopted by the company.[6]

Dividend decisions are an important aspect of corporate financial policy since they can have an effect on the availability as well as the cost of capital. Dividend payout policies dictate how much money the company would like to retain as surplus and how much to distribute to shareholders. Dividend policies in the public sector are governed by the guidelines set by the Government of India. The private sector companies are under no obligation to declare dividends. But some companies have a dividend policy of rewarding the shareholders handsomely. Hero MotoCorpis one such company which has liberal dividend rates typically in three- or four-figures going as high as 4000 per cent. On the contrary, even a highly profitable company such as Wipro has a conservative dividend policy. Such a policy is adopted by companies that wish to conserve resources and build up internal reserves to fund their expansion strategies.

Management of Funds

The management of funds is an important area of financial and policies. It basically deals with decisions related to the systemic aspects of financial management. The major factors regarding which plans and policies related to the management of funds have to be made are: the systems of finance, accounting, and budgeting; management control system; cash, credit, and risk management; cost control and reduction; and tax planning and advantages.

The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilisation of funds—objectives which are central to any strategic action. Organisations that implement business strategies of cost leadership cannot escape the rigours of a proper management of funds. In fact, good management of funds often creates the difference between a strategically successful and unsuccessful company.

Stringent cost control policies make companies, for instance, adopt drastic cuts in many operational areas such as production, overtime payment, rationalisation of staff facilities and freeze on recruitment and voluntary retirement schemes. Orient Cement, among the small and mid-sized companies, realised higher operating margins mainly due to its cost efficiency. The cost reduction resulted from savings in freight costs and energy consumption. This added to its strategic advantage in a competitive industry.

In the past, organisations were content to use internal control and audit systems to manage risks. No longer is this sufficient as conditions are changing. Now they have also to deal with the challenges of technological and environmental risks. For instance, with the possibility of carbon tax in India there is a possibility of companies like Osram—that makes energy efficient bulbs— benefiting by selling their carbon credits. Another aspect of management of funds relates to cash. Cash management traditionally dealt with collection of receivables and disbursement of payments. The function is now such a complex operation that most companies outsource it to banks. This policy enables the organisation to manage its cash flow more effectively, earn higher interest rates, and realise better profit margins. Most banks offer cash management facility to their corporate clients.

Management control systems at public enterprise are subjected to monitoring by the Comptroller and Auditor General (CAG) of India. Internal control systems are devised by the individual enterprises. For instance, Bharat Heavy Electricals Ltd. (BHEL) has internal control measures in all critical areas of its functioning such as budget, finance, materials, purchase, stores, and works. There are codes, manuals, and procedures that form parts of the internal control system. There are board- and unit-level committees to perform the internal audit function. The internal audit function is responsible for checking the adequacy and effectiveness of internal control systems through regular audits, system reviews, and compliance with the codes, manuals, and procedures.[7]

Financial plans and policies, however, present a dilemma before management. The priorities of management may often conflict with those of shareholders and other stakeholders. It is the responsibility of the strategists to minimise such conflict.

Next we take up the discussion of marketing plans and policies.

13.3 MARKETING PLANS AND POLICIES

LO 3

Plans and policies related to marketing have to be formulated and implemented on the basis of the 4-Ps of the marketing mix, i.e. product, pricing, place (distribution), and promotion. The major issues and decisions relate to these marketing mix factors. Questions such as these have to be answered: what types of products to offer? At what prices? Through which distribution channel? By the use of which promotional tool? and How to integrate all these tasks? We discuss each of the marketing mix factors next.

Product

Product denotes the goods and services that an organisation offers to its target markets. Plans and policies related to the products and markets need to be formulated and implemented on the basis of characteristics such as quality, features, choice of models, brand names, packaging, etc. Strategies dictate the manner in which product and market characteristics would be defined. Thus, competitive strategies may be implemented by stressing on high quality, better and more features.

A white goods company, for instance, needs to be constantly on the move in terms of new product offerings. The appliance division of Godrej is well aware of this and it has to introduce new products and its variants more frequently than in the past. Shorter product life-cycles, higher R&D costs, and changing customer preferences are a big challenge to companies in industries such as consumer durables.[8]

Here is an illustration how a company uses simple prescription to deal with threats in the external environment. Threatened by cheap imports from China, Ebrahim Currim & Sons a 150-year-old umbrella company making the well-known ‘Stag’ brand responded by innovative product policies. For years, the ‘Stag’ had only three qualities: it was sturdy, affordable, and of black colour. Currims, realising the new fashion-conscious Indian, made product design changes to offer designer umbrellas by offering multicoloured umbrellas. Then it came up with the idea of printing corporate advertisement and logos on its umbrellas. It went on to offer umbrellas with a built-in high-power flashlight for those who walk unlit roads at night and models with pre-recorded tunes for music lovers. For women who walk secluded streets after dark, there’s Stag’s Bodyguard model, armed with glare lights, emergency blinkers, and an alarm. In doing so, the Currims followed a simple idea: identify customer types and their needs and offer them specialised, high-quality products. The brand keeps reinventing with new materials, shapes, colours, and sizes.[9]

The growth strategy of Bajaj Auto has had the quality of its vehicles as a prominent factor. The product policy of Reliance had been to offer high fashion fabrics of new varieties and design. Not only consumer goods companies but industrial products manufactures may also have to consider the product characteristics, as mentioned above, to set marketing plans and policies. Thermax offered a service franchise scheme to implement its marketing policy for boilers. This policy is based on the thinking that if service is assured in a competitive market, sales will follow. As with industrial products, service organisations too need to focus on the characteristics of their offerings. Banks have been widening their product range. For example, Allahabad Bank has marketing policies of aggressive marketing of retail products, cross-selling of insurance and mutual fund products with more thrust on income generation. In this manner, product and service characteristics help organisations in implementing their strategies just like a strategy guides the formulation and implementation of product plans and policies.

Pricing

Price denotes the money that customers pay in exchange for goods and services. It is important to the seller because it represents the returns of efforts. To a buyer, price is the value that is assigned to the satisfaction of needs and wants. Several price characteristics such as discount, mode of payment, allowances, payment period, credit terms, etc., affect pricing plans and policies.

When Tata Motor's small car Nano launched there was a major hype around its Rs. 1-lakh basic price. In the past, Maruti 800 was also launched by Maruti Udyog (now Maruti Suzuki) on the low-price platform in the 1980s. Pricing thus is a major theme in many product categories. Lower price for mobile calls brought mobile telecommunication as a common means of communications for Indians. Lower airfares by budget airlines made clients who travelled by higher classes in trains to prefer flying by air. At the other end, high prices known as the 'premium pricing policy' too have a purpose. They denote differentiation from the viewpoint of the company and exclusivity of the customer expressed by the phrase 'class-versus-mass'. Luxury products such as high-end cars, cosmetics, apparels or five-star hotels need premium pricing policy.

Service design policies at IndiOne (later Ginger Hotels), a unit of Tata-owned India Hotels were based on low pricing from an international perspective. The ability to offer low prices comes from cost reduction. There are so many implementation measures IndiOne uses to cut down costs: compact rooms, televisions mounted on walls, cheaper, easy-to-clean construction material for furniture, flooring, and bathrooms, few employees, outsourcing extensively, providing lockers to do away with security, asking customers to book online, and relying on word-of-mouth publicity avoiding high-cost advertising.[10]

The policy of setting high or low prices for their products is extensively used by companies as a competitive tool. For instance, Nirma has consistently followed a low-price policy to compete with Hindustan Unilever (HUL). Hindustan Computers Ltd. (HCL) based its marketing policy on low-priced copiers by claiming a better price-performance relationship of its products. This was done through a promotional policy of comparative advertising. Aiwa has constantly hammered the message of its low-priced consumer electronics products. Prices are often used as a determinant of market segmentation, which in turn becomes the basis for creating different models of the same product. The market for soaps, for instance, is divided into premium and popular segment representing the high-priced and low-priced soaps. Similarly, the market for cosmetics is often segmented on the basis of price. The typical perfume market, for instance, is segmented into premium and lower segments. A segmentation of this type has implications for all the factors in the marketing mix, apart from pricing, and helps in implementing marketing policies such as market penetration or partial retrenchment from markets.

Place

Place (or distribution) is the process by which goods or services are made available to the customers. Distribution plans and policies address themselves to issues such as the channels to be used; transportation, logistics, and inventory storage management; coverage of markets; etc.

The use of distribution plans and policies in the marketing function as well as strategy implementation is important. The success of market-oriented strategies, especially in competitive environment, rests on the efficiency and effectiveness of the distribution system. Supply-chain management and customer relationship management have developed in recent years to help companies in performing their distribution activities more efficiently. Distribution assumes special importance in the case of a country such as India on account of its geographical size, cultural diversity, and its yet-to-be-improved physical infrastructure. Companies such as Amul and HUL and organisations such as the Indian Post have worked for years on perfecting their distribution systems to reach the inaccessible areas in India. McDonald's India replicated its parent multinational company (MNC) policy of reaping the benefits of economies of scale and large volumes in its fast food business. This was done through adoption of the quick service restaurants concept that is backed by an elaborate and effective cold chain comprising of farms, pre-chillers, freezers, processing facilities, and distribution centres.

Logistics assumes special importance in the case of certain industries. For instance, it is extremely critical in courier industry. Several companies realise this importance and make efforts to use their distribution systems strategically. Blue Dart is reportedly South Asia's largest integrated air express and package-distribution company. It lays special emphasis on creating the logistics infrastructure to augment its capacity to perform the function of timely and safe delivery. Higher payload is ensured through bigger capacity aircrafts and efficient ground network facilities through its in-house cargo airline.

In the sunrise retailing sector in India we come across several instances of companies trying to utilise the distribution system to build competitive advantage. Krishna Group's 'The Grab Store' is a chain of multi-branded discount stores across prominent locations in the country. Selling brands in the categories of garments, footwear and accessories catering to men, women and children, the stores offer high discounts targeting brand-conscious customers. The distribution policy is an extension of the company's reported strengths in the area of procurement and supply chain management.

India witnesses changes in its retail infrastructure with corner grocery and general stories still retaining their traditional importance while modern retail format such as hypermarkets coming up in larger numbers. E-commerce and M-commerce hold promising potential as emerging channels of distribution that are likely to figure more in the marketing plans and policies of Indian organisations.

Promotion

Promotion deals with marketing communication intended to convey the company, and product or service image to prospective buyers. The promotional mix consists of four activities: advertising, personal selling, sales promotion, and publicity.

Promotional plans and policies have to consider the basic question of what promotional mix to adopt so that promotional activities can be used to implement strategies. Women's Horlicks is a health drink introduced by GlaxoSmithKline (GSK) Consumer Healthcare targeted at women. The promotion policy envisages a promotional mix consisting of an awareness campaign through a doctor engagement programme, a health information company website, print advertising campaign, and television celebrity advertising. The next example is of the promotion of a product called 'India'. The 'Incredible India' print and media-based international and domestic promotional campaign was designed to market brand India as a tourism destination. It consisted of several promotional initiatives such as launching the campaign at the World Economic Forum (WEF) at Davos, multimedia campaigns in several regions of the world such as US, Europe, and the Asia-Pacific, and at the World Travel Market in London.

The increasing competitiveness in several industries in India has prompted companies to adopt promotion as a strategic tool. Top brands in India such as Colgate, Vicks, Lux, Nokia, Britannia, Dettol, etc., have been able to grow and sustain owing to the power of promotion. Customer attention spans have been shrinking owing to the plethora of advertising noise in the media. Brands such as Bombay Dyeing, Hindustan Machine Tools (HMT), or Iodex that do not reinvent themselves suffer when they fail to catch customer attention.[11] The availability of the medium of cable and direct-to-home(DTH) television encouraged erstwhile small companies making products like Vicco creams, LijjatPapad, Pan Parag, Promise toothpaste, Nirma, and several others to adopt a promotional policy of using television advertising extensively. Internet advertising opened up yet another promotional media. Foreign brands such as Amazon and eBay have flourished in Indian markets while local brands such as Naukri.com, Shaadi.com and the Indian Railways Catering and Tourism Corporation Ltd. (IRCTC) have made strategic use of Internet to implement their promotional tactics. Online shopping sites such as Flipkart and Snapdeal as well as a host of speciality stores have made their mark as the new outlets for selling.

The nature of product/industry also determines the type and mix of promotional methods used. Fast-moving consumer goods (FMCG) industry is typically a prolific advertiser on the television. Among the FMCG industry, segments such food and beverages and baby care feature prominently in television advertising. In a fresh approach to using promotion creatively, Eureka Forbes adopted a deliberate sales promotion policy of door-to-door selling, and demonstrations at exhibitions for its home improvement products. LG Electronics used health as the unique selling proposition for promoting its consumer durable brands.

In a crowded competitive market, organisations struggle to make their presence felt. They sometimes resort to unconventional means to grab the attention of prospective customers. Product placement is a clever promotional policy of advertising products unobtrusively in films. Used quite early in the 1973-film Raj Kapoor's film *Bobby* where Rishi Kapoor rides a yellow Rajdoot motorcycle, this promotion policy has seen many users such as Shah Rukh Khan's vehicle Hyundai Santro or Saif Ali Khan and Rani Mukherjee as brand ambassadors for Chevrolet Aveo in *Tara Rum Pum*. This policy successfully makes the viewer watch the disguised advertisement unlike the case of television advertising which is frequently subjected to channel-switching.

Integrative and Systemic Factors

This part of the plans and policies related to marketing management deals with factors such as marketing mix, segmentation, targeting, positioning, market standing, company image, marketing organisation, marketing system, marketing management information system (MIS), etc.

Several of the companies that are admired for their marketing prowess build the integrative and systemic factors painstakingly over a period of time. Companies such as Hindustan Levers, Proctor & Gamble (P&G), Cadbury, Coca Cola, Bata, Asian Paints, and Nestle have attained a place in public consciousness as strong marketing companies. The different aspects of marketing plans and policies including those of the integrative and systemic factors are paid a lot of attention by companies.

A case of a state-level public enterprise employing different elements of marketing plans and policies to launch a value-added commodity is of the Kerala state-owned Cashew Development Corporation (KSCDC) that launched its branded value-added four cashew-based products in the domestic and international markets. Distribution was planned through multiple outlets such as exports through State Trading Corporation and domestic sales through consumer federations, state civil supplies corporation, and through the Kerala Tourism Development Corporation (KTDC). Publicity was funded through grant by Union Commerce Ministry. The international launch of the product was at the annual Dubai Shopping Festival.[12]

The $600-million Ballarpur Industries Ltd. (BILT), one of India's largest paper manufacturers, claims to have pioneered de-commoditisation and branding of paper making branding a major component of its business strategy. Brand promotion was done through linking paper as a product category with the company through the advertising slogan: 'Think of paper, Think of BILT'. The brand promotion exercise was supported by wide distribution network of customers and steady sources of raw materials. A range of paper and non-paper based office stationery under the brand name 'BILT Matrix' in the premium business stationery segment. This brand is supported by advertising campaigns in business journals and on the television which convey the theme of using the brand to 'inspire great ideas'. Web promotion has been used to tap the younger, tech-savvy generation of Indians. A rapidly growing market share and high customer loyalty are evidence of the success of BILT's branding and retail tactics as a part of its marketing plans and policies.

Targeting newer segments is often aimed at through promotional policies designed to attract new customers or to offer new uses for existing products as a part of market and product development tactics. For example, showing older people eating chocolates is trying to attract new customers for a product traditionally associated with children. Showing chocolates as substitute product instead of the more traditional *mithaikadabba* (sweetmeat box) as a gift is an example of new uses for existing products. The promotional policy thus becomes an accessory to the larger brand extension policy as in the case of Garnier hair dye, a lifestyle product aimed at teenagers and young girls. An advertisement shows the daughter advising her mother to try the hair dye thus delivering the message in line with the brand extension policy aimed at broadening the customer group through advertising.[13]

It is not only in the case of large, established FMCG or consumer durables companies that marketing system requires attention but also for all types of organisation including small companies and public utilities. Indian Railways prepared a comprehensive marketing plan for its premium services, *Shatabdi* and *Rajdhani* train services when they were initially launched. A brand manager was appointed, segmentation of the passenger market done, service quality improved, customer-care institute established for training front-line staff, and the ticket pricing was matched with customer's perception of value. A system for getting customer feedback was also set up to monitor improvements.

Corporate reputation is becoming critical in a milieu where customers are becoming more aware of company activities through the different media including the Internet. AC Nielsen Company surveys on corporate image of Indian companies annually reveals that companies such as Tata Motors, Infosys, Wipro, Life Insurance Corporation (LIC) of India, and State Bank of India (SBI) are held in high regard.

In general, one finds that there are several changes taking place in the environment that are impacting marketing plans and policies of Indian companies. Nearly two decades ago, *Business Today* attempted to capture the environmental trends that impact marketing plans and policies in India quite succinctly. These trends seem to be still underway.[14]

- The continuous entry of new competitors is exploding choice for the consumer
- Competitors are making enormous investments for gaining long-term market shares
- Fast-falling margins are cutting into the profitability of many marketers
- Global quality standards are forcing companies to deliver better products
- Both high-spenders and budget-shoppers are demanding value for their money

Exhibit 13.4 Marketing Plans and Policies at Archies

Which day is the daughter's day? No prizes for guessing. It's the fourth Sunday every September as Archies Ltd. just decided. A series of such days is one of the several promotional tactics used by Archies to sell its cards and gift items.

New Delhi-based Archies Ltd. makes and sells greeting cards and gifts. Conceived as an idea in 1979 by Anil Moolchandani, from selling poster and songbooks through mail order, today Archies has emerged as a popular brand in India in what is itself branded as the social expression industry. Known for greeting cards introduced in 1980, the Archies product range expanded to include gifts and music. A foray into perfumes failed and in 2003 was restructured into a franchise-based business. It has strategic alliances and franchising with many global brands such as Walt Disney. It operates in some countries in South and West Asia.

The Product: There are a range of products that Archies has entered into over the years in line with its 'business of emotions' widening its range of products to becoming a social expression company. In-store research helps the company understand the consumer psyche and buying patterns of its target audience identified on the basis of age group of teens to the late-30s. From just greeting cards sales of which were declining, the product range has expanded into gift items. In the gifting segment, it is targeting on corporate and exclusive gift items in addition to products for individuals.

The Pricing: Premium pricing based on differentiation seems to be the pricing tactic of Archies. In contrast, there are low-cost options sold by its competitors in the unorganised sector. Substitutes such as online cards that are virtually free and greetings through SMS and MMS that have a very low price are not considered as serious enough threats owing to lack of personalisation and being passing fads.

The Place: Distribution is the mainstay of Archies' marketing policy and its strength. Early in 2008, it launched its hundredth Company-owned retail outlet—the 'Archies Gallery' first set up in 1987—at Kolkata. Besides its own stores, it has franchise stores and also sells through the malls and other prime retail outlets. It has its e-commerce portal and has tie-ups with e-tailers. Fashion accessories and premium gifts are sold under the retail chain name 'Stupid cupid'. Clearly, the company-owned stores are favoured as they provide advantages of having a large format store, permits display a wide range of products, and helps in generating consumer feedback. The company also has a B2C website at *http://www.archiesonline.com/*

The Promotion: Archies Ltd. started with mail-order advertising and maintained a low-key, non-aggressive promotion policy. Advertising during events and festivals serve as gentle reminders to a brand that is already established and is easily recalled as connected to greetings and gifts. Extensive retail presence also serves as reminder as the brand is visible in malls and other traditional shopping places.Associating with MTV Roadies on television helps it to keep connected to the youth. Another tactic, already indicated at the start of this exhibit, is highlighting or inventing special days to motivate people to celebrate and greet each other. Sometimes, it works as in the case of friendship day and sometimes it does not as in the case of forgiveness day.

Sources: 'Archies captures half of India's greeting cards market using the franchise route,' Content available on the website of Franchising Association of India at *http://www.fai.co.in/content/view/564/42/* Retrieved 3 February, 2008; N. Kaushik: 'Jubilee Resolutions,' *The Hindu Business Line*(8 April, 2004); 'Archies to Launch New Retail Chain, Stupid Cupid,' domain-b.com 20 December, 2005 available at *http://www.domain-b.com/companies/companies_a/archies/20051220_retail.html;* Interview of Pramod Arora, Executive Director, Archies Ltd. on Brand Speak on exchange4media.com available at *http://www.exchange4media.com/Brandspeak/brandspeak.asp?brand_id=99*. Retrieved 6 November, 2014.

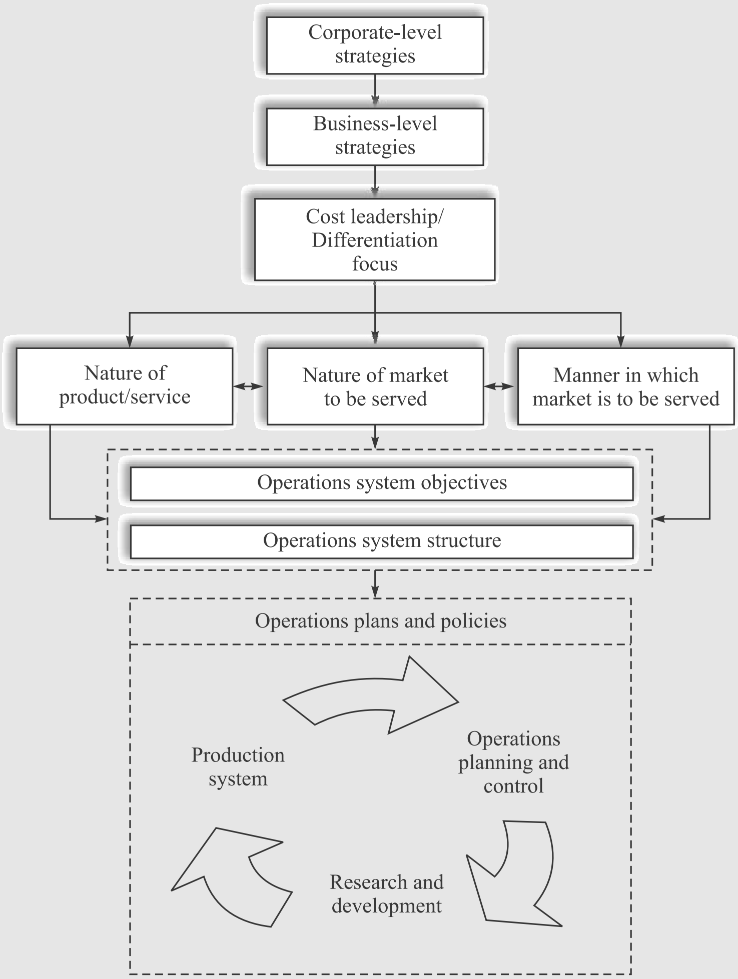
Before we move to the next area of functional implementation, take care to read Exhibit 13.4 to realise that the plans and policies in sub-functions do not operate in isolation; they interact with each other. For instance, product decisions in marketing cannot be taken without considering its pricing, distribution, and promotion aspects. Neither can price decisions be taken without considering the other factors in the marketing mix. This is a demonstration of the horizontal fit that needs to be created for integration of functional plans and policies.

13.4 OPERATIONS PLANS AND POLICIES

LO 4

The plans and policies for operations are related to the production system, operational planning and control, and research and development (R&D). Exhibit 13.5 shows how strategies may influence operations plans and policies. The corporate- and business-level strategies adopted determine the bases of competing (cost leadership / differentiation / focus) that in turn affect the nature of product/service, the markets to be served, and the manner in which the markets are to be served. All these collectively influence the operations system structure and objectives which are used to determine the operations plans and policies. We classify the operations plan and policies into three components of production system, operations planning and control, and R & D. Thus, a strategy of expansion through related diversification, for instance, affects what products are offered, to which market, and how these markets are served. The operations system structure, which is concerned with the manufacturing/service and supply/delivery system and operations system objectives, which are related to customer service and resource utilisation, both determine what type of operations plans and policies are set.

Exhibit 13.5 Relating Operations Plans and Policies to Strategy



Source: Partly based on ideas provided in R. Wild, *Essentials of Production and Operations Management* (London: Holt, Rinehart and Winston, 1985): 26–30.

We now turn to a discussion of the components of operations plans and policies, viz., the production system, operations planning and control, and R & D.

Production System

The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors. All these are strategic in nature. Plans and policies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives.

Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies and achieve objectives. For example, Excel Industries, a pioneering company in the area of industrial and agrochemicals, adopted a policy of successive vertical integration for import substitution. Reliance has made a success of its vertical integration expansion strategies. Another example is of Lakshmi Machine Works, where operations policy related to the product range aimed at the successive enlargement of its textile machinery range. This is done through a policy of mastering the process of production by absorption of technology, indigenisation, and adaptation to customer needs.

It is not only that manufacturing organisations are concerned about the nature of production system they adopt but they are also concerned about the question 'whether it is mass or customised production?'. Service organisations, such as the luxury resort company Club Mahindra, too look to customisation as a means to identify a distinct market segment to serve. In this case, the company customises the vacations offered. This is based on the unique needs of its customers who are young professionals looking for a change from their routine jobs and sedentary lifestyle with much time spent in air-conditioned environment to indulge in energetic activities in open spaces. Club Mahindra has a separate division called Zest to look after this customer group.

Operations Planning and Control

Plans and policies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilised and in what manner the day-to-day operations can be managed in the light of long-term objectives.

Operations planning and control provides an example of an organisational activity that is aimed at translating the objectives into reality. For instance, at Instrumentation Ltd., a public sector company engaged in the business of process control and automation, operations planning, and control was based on the policy of ancillarisation. Ancillary units supply sub-assemblies and components. The company's centralised production at Kota, in Rajasthan, integrated its operations plans with the plans of its ancillary units. The centralised production provided all the basic inputs to ancillaries and performed the functions of testing, standardising, and fabricating the equipment.

Turning adversity into an opportunity is seen in the case of Lloyd Steel which had a fraction of its giant competitor Steel Authority of India's (SAIL's) production capacity. In the steel sector, operating efficiencies are associated with size. Obviously, it was futile for Lloyds to compete on size and volumes. It adopted a business strategy of focused differentiation backed by an operations policy of taking small orders and executing them faster than the larger players in the industry. Instead of the blast technology, it imported the electric arc furnace technology that enabled it to cater to small orders served through customised production.

Service organisations too have much to gain from effective plans and policies for operation planning and control. TCS Financial Solutions, a strategic business unit of Tata Consultancy Services (TCS), has a business model of having a dedicated unit focusing on key aspects of product management and engineering for financial technology. The implementation methodology is called the Global Network Delivery Model that specifies processes and infrastructure. The processes involved are quality, security, and project management for clients which are banks interested in core banking solutions for real-time channel integration. Such integration gives them the opportunity to reinvent the branch experience with a wider range of products and services.

Exhibit 13.6 Matching Operations Plans and Policies to Strategy at Rane Group

The Deming Application Prize is considered as the most prestigious global award for excellence in quality management. There are many Indian companies that have won the prize Sundaram Clayton being the first. But three companies in the same business group winning the prize is a remarkable achievement. Chennai-based Rane Group is the proud recipient of the Deming Prize seven times for its different companies.

Sometime in 1999, S. Sundar Ram, the then president of Rane Brake Linings realised the critical importance of quality as a competitive tool in a changing world where global competition was going to prevail. Probably, spurred by rival Sundaram Clayton's success, Ram decided to focus on total quality management (TQM) as the means to achieve strategic success.

Rane Group, consisting of 10 companies and founded in 1929, is a manufacturer of auto components like steering and suspension systems, seat belts, valves, valve guide and tappets. Rane Brake Linings, a member of the Rane group of companies set up in 1964, is an ISO 9001 and 14001 company with factories at Chennai, Hyderabad, and Pondicherry, manufacturing asbestos and asbestos-free brake linings, clutch facings, disc pads and railway brake blocks. It plans to get into defence-related production through acquisitions.

Typical for a family-business group, Rane Brake was a top-driven company. The chief executive officer (CEO) would formulate the strategic plan and the managers would implement it. Implementation of TQM required decentralisation of management as well as an open leadership style.

The implementation of TQM focused on certain elements such as customer focus, standardisation of processes, fact-based decision making, policy deployment to align corporate goals with employee responsibilities, and total employee involvement. The implementation plan also called for organisational support as well as behavioural interventions such as quality circles and discussion groups.

An apex team was set up comprising all the company presidents and total quality (TQ) coordinators, besides group-wide TQ coordinators. This team would go to a company location every month and spend the day auditing the work done and charting out future progress. Quality circles and discussion groups proved invaluable in employee empowerment and employee ownership. Suggestions emanating from these groups helped make continual improvements in various aspects of the production system.

Research and development is a thrust area at this consummate manufacturing company. There is a dedicated facility for new product development for critical applications including aerospace. The design centre has CAD and sophisticated test equipment. Products go through comprehensive testing and validation in the modern test facilities. The company attempts to continually update in line with evolving customer demand.

The Rane group companies plan to improve their lean manufacturing systems using the Toyota Production System, which focuses on eliminating all kinds of wastage and to push export sales. The group has technology collaborations with TRW Automotive of the US, and NSK and Nisshinbo of Japan.

The outcomes of changes in production plans and policies has been in terms of improved team work, energeticand motivated employees, and improved organisation alignment.

Sources: V. Jagannath,'The Deming Dash,' domain-b.com 23 December, 2003. Available at *http://www.domain-b.com/companies/companies_r/rane_brake_linings/20031223_deming.html* Retrieved 3 February, 2008; A. Bhattacharya,'The Deming Champions,'*Business Today*(18 December, 2005): 68; Rane Group website at *http://www.rane.co.in/* Retrieved 6 November, 2014.

Some companies use quality as a strategic tool of differentiation. The operations policies at Klein Schanzlin and Becker (KSB) Pumps Ltd. laid a great emphasis on quality aspects. In implementing its strategy of stable growth, KSB Pumps built a solid reputation for its quality products. Structurally, it had a separate department of quality assurance having two groups of quality inspection and quality engineering. Thus, quality became a consideration not only at the inspection stage but was built into the design itself. Have a look at Exhibit 13.6 that presents interesting information related to a company that won international recognition in operations plans and policies especially related to its quality management capability.

Research and Development

Plans and policies for R&D deal with product development, personnel and facilities, level of technology used, technology transfer and absorption, technological collaboration and support and the like. R&D occupies an important position in operations management in the Indian context as companies have access to multiple sources of technology, including the foreign sources in developed countries. Increasingly, India is becoming a base for R&D of many foreign companies too attracted by highly qualified, low-cost personnel, and cost effectiveness in conducting R&D as well as a large market.

For strategy implementation, R&D is used as a foundation for implementing strategies such as product development and diversification. R&D is also used as a competitive strategic tool. For instance, Chennai-based Amara Raja Batteries, that was already a leader in the lead acid battery segment, consolidated its position in the competitive automotive battery segment by entering into technology collaboration with Johnson Controls the world leader in automotive systems creating access to state-of-the-art technology.

Another example is from the paints industry. Paint-making has traditionally been considered a middle-level technology, low capital business in India but Jenson & Nicholson (India) Ltd. laid a great emphasis on its R&D policies. This enabled the company to adopt competitive strategies even though the paints industry, on the whole, is not very profitable. With a high level of R&D investment, this company ensured a competitive edge, better quality products, and lower production costs.

The R&D policies of Gujarat Communication and Electronics Ltd. (GCEL), a public sector undertaking in the business of professional electronics,are aimed at borrowing technical know-how from several sources, like foreign companies, national laboratories, besides internal R&D and exploiting it for production and development in the areas of printed circuit boards, integrated circuits, and electronic circuitry.

The trend of foreign companies setting up R&D centres in India started in 1985 with Texas Instruments setting up its R&D centre at Bangalore. IBM set up its largest R & D centres outside the US at Bangalore and New Delhi in India. These centres are designed to become a source of innovation on everything from software to semiconductors to supercomputers. One outcome, for instance, is a Web-based programme of testing language fluency that analyses a person's accent, grammar, and vocabulary to evaluate prospective employees for the IBM's call centre operations.[15]

In this section, we have observed how the production system, operations planning and control, and R&D play a role strategy implementation. In the next section, we take up the issue of HR and their role in strategy implementation.

13.5 PERSONNEL PLANS AND POLICIES

LO 5

Personnel (or *human resource management*) plans and policies relate to the personnel system, organisational and employee characteristics, and industrial relations. Management of HR has been undergoing profound changes in the post-liberalisation environment in India. These changes are impacting all the three components of personnel plans and policies. Exhibit 13.7 presents a comparative picture of the changing paradigms that govern HRM in India. As we will observe these changing paradigms are helping to bring significant transformation in the manner how organisations in India are managing their HR.

Exhibit 13.7 Emerging Paradigms in Human Resource Management (HRM) in India

Characteristics of HRM in the pre-1991 controlled business environment in India	*Emerging paradigms governing HRM in the post-1991 liberalised business environment in India*
HRM function largely isolated from top management	Integration with top management often in the form of membership in top executive teams and board of directors

Personnel management function	Strategic HRM
Domination of family-based top management	Induction of professionals in top management
Caste a major consideration in recruitment especially in the top management cadres	Growing trend of recruitment based on knowledge, skills and abilities
Nepotism in selection of personnel	Increasing use of objective methods such as assessment centres to judge capabilities of personnel impartially
Training primarily for managers	Management and worker training
Compensation based on tenure	Compensation based on performance
Owners and top managers relatively more powerful than employees	Power within organisations becoming more equitable among owners and managers, and employees
Sources of recruitment almost exclusively local; lack of diversity in terms of nationality	Growing trend of recruiting from outside India; increasing diversity of workforce

Source: Adapted from E. Pio,'HRM and Indian Epistemologies: A Review and Avenues for Future Research,' *Human Resource Management Review,* 17, no. 3 (September, 2007): 319–35.

An illustration of how the changing paradigms are impacting personnel management within organisations can be seen in the case of the AV (Aditya Vikram) Birla group. A massive effort at realignment of HRM with the corporate and business strategies of takeover, expansion of capacities, consolidation, value addition, focus, etc., took place in 2000. The guiding philosophy of the Group was based on the tenet of ``'people-ising' the organisation. A 3-year HR intervention was undertaken systematically after proper diagnosis. There were an estimated number of 1,00,000 employees in 48 units in India and 18 units abroad. One significant step was of restructuring a mechanism for close coordination and interaction among the corporate and unit level HR departments. Various HR initiatives included involving top management in HR, setting up a training and self-development centre, secondment abroad of high-potential employees, designing of performance appraisal systems aligned with business goals, implementing group management trainee scheme at entry-level, and developing managers for leadership roles.[16]

While private sector organisations have considerable leeway in designing and changing their personnel plans and policies as we see in the case of AV Birla group, public sector enterprises (PSEs) have to abide by directions from the administrative ministries and nodal agencies in formulating all types of functional plans and policies. For instance, the Department of Public Enterprises acts as a nodal agency for all central public sector enterprises and assists in policy formulation pertaining to the role of PSEs in the economy and in laying down policy guidelines on performance improvement and evaluation, financial accounting, personnel management, and in related areas. It also collects, evaluates and maintains information on several areas of functioning of the PSEs. The Department also provides an interface between the administrative ministries and the PSEs. Despite the partly constraining role— partly, as centralised direction of policies has merits too—there are PSEs that adopt a proactive stance in transforming their functional plans and policies. Exhibit 13.8 presents an illustration of how a loss-making public sector steel plant utilises personnel plans and policies as a part of its turnaround strategy.

Exhibit 13.8 Personnel Plans and Policies at Rashtriya Ispat Nigam Ltd.

Rashtriya Ispat Nigam Ltd. (RINL) is the corporate entity of the Vishakhapatnam Steel Plant situated in Andhra Pradesh. It is also called Vizag Steel. Like a typical public sector enterprise, it took 22 years from conception in 1970, when its setting up was announced in Parliament, coming into existence in 1982 and commissioning in 1992 when it actually started functioning. It had an inauspicious start with accumulated losses of Rs. 2,000 crore even before producing a ton of steel. This happened owing to project cost overruns. To add to its woes, the commissioning came at a time when the steel industry was decontrolled post-liberalisation. The result was obvious when it was referred to the Board of Industrial Finance and Reconstruction (BIFR) being a sick company.

The organisation made a sustained recovery all through the 1990s and finally in 2005 was able to generate profits. It also turned net positive wiping all its accumulated losses to achieve a net profit of Rs. 1251 crore. It has been in the black after that achieving impressive revenue and having goof profitability. There are more than 18,000 employees. In 2010, it achieved the Navratna public enterprise status subject to making an initial public offer and getting listed.

The mission of RINL was'to attain 16 million ton liquid steel capacity through technological upgradation, operational efficiency and expansion; to produce steel at international standards of cost and quality; and to meet the aspirations of the stakeholders.' The corporate/business strategy has been organic growth through doubling the production capacity and maintaining leadership in the long segment of the steel industry constituting products such as wire rods, bars, structural, and seamless pipes.

The turnaround of RINL has been possible thanks to various initiatives among them the HR initiatives. RINL claims that the HR initiatives are closely linked to its corporate strategy. We will look at some facts and figures to understand the HR scenario at RINL. A remarkable feature of RINL was that it had the youngest workforce in the Indian steel sector with nearly half of the workforce in the 25–35 years' age-group. Again, almost all the workforce was technically qualified having diploma from Industrial Training Institute or higher educational qualifications.

Among the HR initiatives were efforts to boost the morale of the workforce resulting in RINL achieving the highest labour productivity in the domestic steel sector. Another initiative was to enhance employee engagement through a suggestion scheme connected to rewards resulting in substantial savings.

The HR policy statement of RINL incorporates the following elements:

1. Belief that the employees are the most important resource and their full potential should be utilised
2. Work environment that makes the employees committed and motivated for maximising productivity
3. Systems for maintaining transparency, fairness, and equality in dealing the employees
4. Empowerment of employees for enhancing commitment, responsibility, and accountability
5. Encouragement of teamwork, creativity, innovativeness, and high achievement orientation
6. Provision of growth and opportunities for developing skill and knowledge
7. Ensuring functioning of effective communication channels with employ

The company also had a formal HRD policy designed to nurture development-oriented organisational culture. The salient features of the HRD policy were as follows:

- Identify development needs, provide requisite training, and evaluate its effectiveness
- Provide inputs to the employees and create match between competencies and organisational requirements
- Create a learning environment
- Facilitate continual development of employees
- Prepare employees for taking up higher-level responsibilities
- Fulfil social obligations by inducting students for practical training

The HR plan of company aimed at developing the unreserved commitment, creativity, competence and initiative of the personnel in meeting its business challenges. Human resource personnel played a key role in the implementation of total quality management at RINL. Training activities were taken very seriously with proper measurement of training effectiveness. Industrial relations were generally amicable and there was continuous interaction with the recognised unions, officers' association, and the Scheduled Caste/ Scheduled Tribe (SC/ST)Employees' Welfare Association in matters related to production, productivity, discipline, and work culture.

Sources: 'RINL Revival: Human Resources the Key,' *The Hindu Business Line* (23 June, 2001); S. Palo and N. Padhi,'How HR Professionals Drive TQM: A Case Study in an Indian Organization,' *The TQM Magazine,* 17, no. 5 (2005): 467–85; RINL's official website at *http://www.vizagsteel.com/* Retrieved 4 February, 2008; and RINL's *25th. Annual Report 2005-2006* available at: *http://www.vizagsteel.com/images/English%202006-07.PDF.* Retrieved 4 February, 2008.

Personnel System

Plans and policies related to the personnel system deal with factors like manpower planning, selection, development, compensation, communication, and appraisal and retention. The importance of such plans and policies resides in the role personnel systems play in providing and maintaining HR.

While implementing strategies, companies often rely on personnel systems. Hindustan Petroleum Corporation Ltd. (HPCL) faced new challenges of oil sector deregulation and found itself to be a bureaucratic organisation not suited to dealing with competitive markets. As a part of reformulation of the HR systems, HPCL created transparency in appraisal systems, reduced transfers to encourage specialisation, and developed effective communication systems. Lakhanpal National Ltd., a maker of dry cells, emerged as a formidable competitor in a highly competitive market. Apart from its strength in technology and marketing, the company adopted the Japanese principles in designing and operating its personnel systems. For instance, it developed an open communication policy and the top management shared the details of production, sales, and marketing with workers every month. The result was high motivation and quality consciousness. Similarly, Maruti Suzuki had adapted several types of Japanese-oriented functional systems such as suggestion schemes and quality circles into its personnel system.

The issue of high employee turnover was not significant earlier when people looked for stable, long-term employment preferably in government and public sector enterprises. But in the emerging scenario industries such as business process outsourcing face the challenge of retaining employees. Organisations in such industries have had to come up with innovative ways to deal with high attrition rates and employee pinching. TCS provided a choice of working in offices in the different countries it works in, paternity leave for adopting a girl child, and discounts for group parties. Wipro initiated the 'Wings Within' programme where existing employees get a chance to quit their current job role and join a different firm within Wipro.[17]

Organisational and Employee Characteristics

Organisational and employee characteristics include factors such as the corporate image, quality of managers, staff and workers, perception about and image of the organisation as an employer, availability of development opportunities for employees, and working conditions. Plans and policies related to these factors have to be formulated if strategies have to be implemented properly. The real value of the organisational and employee characteristics lies in the creation of an appropriate environment for strategy implementation. Personnel systems, discussed above, and other behavioural inputs may be used to create such an ambience.

S.K. Bhattacharya in his pioneering study *'Achieving Managerial Excellence'* relates the success of ICICI to the vision of its ex-Chairman H.T. Parekh.[18] The style of Parekh's leadership had several facets, one of which was to have a truly open-door policy based on open communication and sharing of information. This resulted in a genuinely consensual mode of decision-making and a supportive environment by the means of which this development banking organisation could implement its strategies.

Certain companies can build up strategic competence through an effective use of organisational and employee characteristics factors which they can then use for competing in the markets. Jindal Strips Ltd., a successful medium-sized steel making company, leveraged its skills in R & D and the development of indigenous technology. The company derived its strength from its personnel policy of building and sustaining a strong team of engineers who were experts in developing the steel-making technology at a much lower cost as compared to that for its competitors. HUL is famed for its top-quality managers and has been a hunting ground for companies seeking talented employees. It provided hundreds of CEOs and senior managers to other companies. Notwithstanding employee pinching from HUL, the company built up a solid reputation on the basis of its organisational and employee characteristics such as being the preferred choice of graduates from management and engineering schools, having good systems and processes to train managers, and being perceived as an ethical company.

In the contemporary business environment in India where attracting and retaining good quality employees is a formidable challenge for organisations, corporate image and reputation play a vital role in letting prospective employee assess the suitability of employers. There is considerable interest especially among young graduates in knowing about best employers in India. Latching on to this trend, consultants and business magazines have taken up surveying aimed at ranking organisations as employers. What many of these surveys point out is that the best employers have aligned their practices with the organisation's strategy and goals specific to their industry needs, and have created an environment that produces a positive employee experience and results. Opportunities and growth are seen as positive factors by the career-oriented workforce in India. They also highlight the fact that younger employees have different attitudes that their older predecessors. High levels of remuneration, fast paced growth, and open communication are some of the things taken for granted by employees these days. A critical factor about employee engagement is that employers are judged on the basis of the autonomy, challenge, and innovation they offer in addition to good pay.[19]

Scarcity of talent has been a formidable challenge in recent times for organisations in the IT industry in India. Companies have been known to adopt several policies aimed at attracting and retaining IT professionals. An instance of innovative approach comes from some IT and business process outsourcing companies such as TCS, Symantec, and 24/7 Customer that are tapping the abundant supply of skilled workforce in North-Eastern states of India where typically the availability is good, people are hardworking, there is high competency in the English language, and most importantly for the IT companies, the attrition rates are low. Genpact would not only recruit but also set up a unit in Shillong in Meghalaya.[20] Such a recruitment policy not only helps the IT companies but the region too as it has been neglected for so long in terms of industrial development.

Industrial Relations

Plans and policies related to industrial relations deal with issues such as union-management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale. Industrial relations assume a special significance in an environment where there are several factors such as a pro-labour attitude of government, plethora of legislation, rules and regulations related to unions and workers, multiplicity of unions, political interference, etc. Things however are changing in the industrial relations scenario in India. There has been a steady improvement in the industrial relations environment in India as evidenced by several parameters. For instance, of the number of strikes, lockouts, and man-days lost nearly halved during the period 2000–05[21] and the trend continues further.[22]

Analysing the impact of globalisation on labour-management relations, Venkata Ratnam observes that the diversity in industrial relations in India is increasing, the adjustment pressures will continue and new systems of social security nets which provide income security without job security are evolving. New technologies and changing work place and worker demographics are bringing about a transformation in workplace governance with greater say and stake for employees as well as customers.[23] Within this framework, companies have several options with regard to the plans and policies related to industrial relations.

Tata Iron Steel Company Ltd. (TISCO) claims to have never had a major industrial relations problem for the last several decades. The prevalence of a congenial industrial relations environment is mainly attributed to the personnel plans and policies of the company. For instance, there is a genuine consultative participation of workers in management. Besides, there is a clear 'no retrenchment' policy and any dislocation of workers due to upgradation of technology and modernisation is dealt with by retraining the workers.

Recent years have seen a drastic change in the management's attitude towards workers and their unions. Employers have started adopting a tough attitude and, consequently, industrial relations policies have become stringent. The 1998-postal strike by six lakh workers was broken up ruthlessly by the government. Hindustan Unilever, when it faced problems in the competitive detergent market, had to adopt a rigid stand and decided to lock out its Mumbai unit rather than concede to the union's demands for increased wages. Instead, the company insisted on having a policy of linking wages to productivity and redeployment of workers within the factory as it wanted.

In the past when the tenor of industrial relations was workers/unions versus management organisations generally adopted a strictly legalistic approach to personnel management. Owing to the changing nature of industrial relations to workers/unions and management, now the focus of personnel or HRM is on training and development, rewards and incentives, performance management, and the like. A redeeming feature of the industrial relations environment in India is also the proactive stance taken by companies to improve the working conditions. This is particularly seen in the case of knowledge-based industries such as IT and IT-enabled services industries where professional skill and expertise carry a high value.

The labour law reforms underway in India may weaken the bargaining position of workers and unions against management yet the industrial relations dynamics may continue to be swing between situations of conflict and cooperation. Formulation and implementation of industrial relations plans and policies to reflect the realities on the ground is likely to create a more conducive atmosphere for productive relationship between labour and management.

This section has covered the three broad areas of personnel systems, organisational and employee characteristics, and industrial relations for which personnel plans and policies could be set. Let us now move further the last functional area that we discuss in this chapter.

13.6 INFORMATION MANAGEMENT PLANS AND POLICIES

LO 6

Information capability factors relate to the design and management of the flow of information within, and from outside into, an organisation. The value of information, as an intangible resource and a source of strategic advantage,is recognised by organisations. The development of IT and the emergence of information management as a specialised function have helped the organisations to derive benefits out of the vast amount of data that is typically present in most organisations. From being a peripheral function dealing with routine activities like payroll accounting and bulk communication, information management is now being viewed as a distinct functional area within organisations that, if managed properly, can augment their capability to develop strategic advantage.

Exhibit 13.9 presents an illustration of a diversified organisation that attempts to sustain its strategic advantage in its core function of project management through managing information systematically. Observe how data is pulled from myriad sources available in different projects being implemented simultaneously and in what way it is processed and synthesised to be retrieved and used later for transmission and dissemination.

Further, in this section we take up the different factors within information management system to demonstrate how these can play a role in strategy implementation.

Exhibit 13.9 Information Management Pans and Policies at Larsen & Toubro (L&T)

Larsen & Toubro Limited (L&T) is a technology, engineering, construction and manufacturing company. Headquartered at Mumbai, L&T was established in 1938 by two Danish engineers as a private company and became a public limited company in 1950. It is one of the largest and most respected companies in India's private sector.

Larsen & Toubro is a large, complex and diversified organisation with 62 different operational areas in its several businesses such as engineering and construction, electrical and electronics, machinery and industrial products, IT and technology services, and financial services. The various divisions in L&T have myriad information requirements necessitating a complex information management system. There is continual requirement of introduction of state-of-the-art IT as well as maintenance of existing systems. Much of IT needs of various divisions are served through in-sourcing to L&T Infotech that maintains several SAP systems across the group. In this exhibit we will focus on information management in the project management function at L&T.

Project management is at the core of the functions at L&T. Owing to its nature any project requires a lot of collaboration between personnel working in different functional areas such as engineering, procurement, execution, construction, and commissioning. There are a large number of vendors, subcontractors, and clients who are a part of the web-like structure that connects various stakeholders of a project. It is a big challenge to keep track of various communication devices such as discussions, meetings, documents and drawings that have to recorded and transmitted in a secure fashion.

Another facet of project management at L&T is that there are several ongoing projects at any given point of time. Many of these are similar in a number of ways. They are alike in nature, use analogous technology, are executed more or less in the same way, and the problems faced and resolved are pretty similar too. Sometime in 1999, the top management at L&T thought of creating a system by which learning, experiences, best practices and recommendations could be shared to the benefit current and future projects. The result was a knowledge management system called Knowledge Online (KOL).

The KOL system identified the following critical categories of activities:

1. Activities related to proper communication through a daily newsletter called Know Net and e-mails aimed at transmission and dissemination of information on a regular basis.
2. Activities related to building a knowledge repository as every project yields a large amount of documents. Both explicit and tacit knowledge was sought to be captured through KOL and a document management system called domino.doc aimed at acquisition, retention, processing, synthesis, and retrieval of information.
3. Activities related to promoting collaboration through a community of practice system and a project correspondence system.
4. Activities related to rewarding and recognising knowledge behaviour in the form of two competitions annually to reward personnel who distinguish themselves for usage of learning and idea generation.

There have been encouraging results of implementing information management plans and policies at L&T in the form of better collaboration, creating standard operating procedures, gains in efficiency, and monetary and intangible savings.

Sources: R.P. Sinha,'Working Towards Total Process Improvement at L&T,'*Knowledge Management Review,* 10, no. 1 (March/April, 2007): 18–23; 'IT within, IT without,'*CIO Today* available at: *http://cio.in/features/viewArticles/ARTICLEID=5875/page=1*Retrieved 4 February, 2008; L&T company website at *http://www.larsentoubro.com/lntcorporate/common/ui_templates/HtmlContainer.aspx?res=P_ENC_DENB_AAOV.* Retrieved 6 November, 2014.

Factors Related to Acquisition and Retention of Information

Plans and policies with regard to the processing and synthesis of information deal with factors such as sources, quantity, quality, and timeliness of information, retention capacity, and security of information.

Customer relationship management (CRM) and supply chain management (SCM) systems have become tremendously popular owing to their ability to provide a platform for acquisition and retention of information related to an organisation's customers and suppliers. This facilitates further processing and synthesis of information for the benefit of decision-making particularly related to marketing management that can prove immensely useful to organisations operating in competitive sectors like the FMCG industry.

IT adoption in the FMCG industry is on the rise with it becoming an integral part of the marketing plans and policies of almost all the leading FMCG companies. It is common to find is on the rise personal computers connected to wide area networks of companies being used by their field sales force. For example, applications developed by Colgate Palmolive for its stockists are used by its salesmen when they go to rural areas, take order using the PDA and then upload all the data at their distributors' end. Marico is using mobile technology innovatively to arm its field representatives in their procurement process.

One of the early adopters of IT, Hindustan Lever realized the importance of IT long back and overhauled its entire IT system implementing the supply chain, data warehousing, and customer management solutions.[24]

Hindustan Levers had launched a pilot project to create a wide area network to connect its distributors and top retailers. This was done to tap data sources outside the company and gather information about marketing and allied activities. It also has a sales-force automation system using wireless connectivity by the means of which salespersons in the field collect useful retail data, availability of stocks, and requirements. It is not only the FMCG industry that is the beneficiary of the IT applications. Power Trading Corporation provided its buyers and sellers who are power producers and suppliers with a CRM platform for electricity transactions. The objective was to help real-time transaction and billing at the transmission level and measure usage from consumers.

Organisations have access to more information about customers. This is possible because, in the digital age, it is possible for them to track the information left as footprints by the customers when they make purchases. Also web interactions, credit card transactions, and other inputs from customers form a massive database that is called big data. This information becomes the basis for companies to make marketing decisions through sophisticated analytical techniques. Data analytics is playing an increasingly important role in giving meaning to enterprise data.

Information security is a big issue and organisations are conscious of framing information management plans and policies to deal with it. Spyware and malicious programmes can infect an organisation's IT system from a range of entry points including Internet-based applications, peer-to-peer sharing, and removable media. Organisations make investments to make their IT systems robust with an anti-virus solution and firewalls. Enterprise mobility and cloud services are being gradually used more by organisations in India. Data leakage prevention tools are deployed to protect the organisations from risk. Besides these, policies are in place in the form of administrative control on the usage of Internet. Hindustan Petroleum Corporation Ltd. has a wide range of security policies that are reviewed and updated annually. This broad range of security policy has major areas like information system security policy statement, coverage and objective of the policy, and roles and responsibilities of various entities in the corporation with respect of information security.[25]

Factors Related to Processing and Synthesis of Information

Plans and policies with regard to the processing and synthesis of information deal with factors such as the database management, computer systems, software capability, and ability to synthesise information.

A configuration of one lakh insurance agents, two million customers, and 900 offices posed a big challenge of coordination to Bajaj Allianz, the private life insurance company. It had made a capital investment of Rs. 70 crore and ongoing expenditure up to 2 per cent of annual premium on its IT infrastructure. The IT systems were designed to support the primary customers, the policy holders, and the secondary customers, the agents. While the customers could access the customer portal to view policy details or pay renewal premium, within the company the IT system was used to prepare numerous reports and analyses on a daily basis that were used to support decision-making and marketing.[26]

The most profitable service offered by Corporation Bank is fee-based banking offered through the application of the collection and payment services (CAPS). This computerised software based system enabled the branches of the Bank to collect payments from dealers and retailers all over the country and make payments to the client company at its designated bank branches. The Bank's ATMs were constantly upgraded to offer value-added services apart from the usual dispensing of cash.

The booming retailing industry has seen many and varied applications of IT system aimed at processing and synthesising information for better decision-making. Retailing companies have moved ahead from enterprise resource planning (ERP) to explore supply chain management (SCM), business intelligence (BI), customer relationship management (CRM), radio frequency identification (RFID) and innovative models of points of sale (POS). Titan, for instance, for its jewellery business, implemented Oracle-ERP integrating order processing management, purchase order, inventory management, finance, and lot-costing.

At ColorPlus, all showrooms and outlets are connected through fibre optic cables. An in-house developed system called ColorSure ERP consists of two processes of fabric procurement and garment retailing. ERP deals with merchandising, marketing, order management, warehousing, production, POS, and MIS.[27]Retailers such as Lifestyle International, Pantaloon Retail and Trent planned to harness consumer data from every available source to make their enterprises more competitive. Marketers can leverage consumer data to make decisions regarding store layouts, buying decisions, merchandising decisions, property selection, pricing decisions, and sales mix.[28]

Factors Related to Retrieval and Usage of Information

The retrieval and usage of information deal with factors such as availability and appropriateness of information formats, and capacity to assimilate and use information. Information retrieval in organisations can be done at various levels. For instance, a typical personnel information system can enable individual employees to access their own information, departmental heads can access information related to all the employees in their departments, and personnel departments can access information of all the employees in the organisation.

Usage of information is usually in the form of report generation. Useful reports based on personnel information system can be generated, for instance, for the purpose of finding out the employee strength, distribution of the number of employees along different demographic variables, etc. Such reports can be used for various purposes like HR planning and framing policies for various HRM functions like recruitment, development, compensation, and performance appraisal.

Information retrieval via Internet search is now an indispensable tool for billions of people worldwide. Data warehousing and data mining techniques are common analytic processes for exploring a mass of data, identifying trends, predicting future trends, and generally extracting useful information for the purpose of business decision-making. Organisations use these techniques extensively for various purposes. The techniques also are the bedrock of so many of the information management plans and policies that organisations create from time to time.

A couple of examples should serve to explain the significance of retrieval and usage systems. Traditionally, insurance has been a paper-intensive business with much record keeping and high need for retrieval and usage of information in processing insurance policies. IT can be an enabler of cutting down paperwork. HDFC Standard Life Insurance Company tried it with an enterprise workflow system integrated with a document imaging system. This composite system was integrated with the other existing front-end and back-end systems at the company, transforming the backbone and enabling process automation. An employee could log in the system and pick up cases from the inbox. Users processed cases by viewing digital images of the files. The net result of using efficient retrieval and usage systems is faster processing, higher customer satisfaction, and increased revenue.[29]

Freight forwarding has been a traditional and conservative business in India. Exporters and importers critically depend on low-priced freight rates and timely execution of orders to remain competitive in the global markets. Aqualogistics, a small firm catering to this specific need of the exporters and importers, provided Internet-based software to retrieve and use information related to air and sea freight, demurrage, and duty entitlement to enable on-line processing of information by the exporters to quote on-the-spot carry and forward prices to buyers abroad.

Factors Related to Transmission and Dissemination of Information

The plans and policies with regard to the transmission and dissemination of information deal with factors such as speed, scope, width, and depth of coverage of information, and willingness to accept information.

Bangalore-based GMR group has a 'work anywhere, work anytime' IT initiative under which the company seeks to provide instant, high-speed access to its managers, business partners, and other stakeholders on the status of any of the ongoing 36 infrastructure projects. A multi-layered approach to IT covers basic applications such as ERP, knowledge management portal, and business intelligence tools.

RP Goenka (RPG) Enterprises had established a knowledge management system as early as 2000 in order to capture information spread across its various businesses to save on costs, propel growth, and enable organisation-wide sharing of ideas and learning. For this, the company had an intranet that captured historical facts and processes. This was available for horizontal dissemination across the group companies to enable better and informed decision making by its managers.

Madura Garments faced tremendous pressure on its systems and operating practices as a consequence of its rapid growth strategies. Operational problems and absence of timely MIS were identified as critical problem areas. It replaced its legacy software systems with a comprehensive and integrated package which would facilitate company-wide integrated information systems covering all functional areas. The aims were to increase order fulfilment rate and reduce inventories.[30] Earlier, it had been able to increase its turnover by about 2.5 times by increasing these just by 20 per cent. It was able to do so by putting in place an information system that enabled individual managers to receive inputs from peers and perform job more efficiently at a fast speed and with greater accuracy.

Digitalisation in the service of citizens is the theme of e-governance. The aim is to establish systems that facilitate smooth retrieval and usage of information that can help the citizens to deal with the government more effectively. There is an increasing trend among government departments at different levels of governance to set up information portals for the users to access information easily. Some of the key areas where e-governance initiatives are working at present in India include land records, property registration, treasuries, and municipalities and *gram* panchayats.[31] Haryana became the first State in India to set up an industries portal in association with Microsoft. The portal provided links to all the acts, policies, rules, and forms that may be required by a potential investor. Budding entrepreneurs could use a Business Planner to link to suppliers. There was a discussion form for industrialists and entrepreneurs.

Integrative, Systemic, and Supportive Factors

The last set of factors dealing with the integrative, systemic, and support factors such as the availability of IT infrastructure, its relevance and compatibility to organisational needs, up gradation of facilities, willingness to invest in state-of-the-art systems, availability of computer professionals, and top management support.

Information technology is an area that is one of the fastest growing areas in terms of technological sophistication. It is difficult for organisation to keep pace with the dynamic nature of information management. The contemporary IT environment consists of many interrelated components leading to complexity. Such complexity arises from the interdependencies among these components, which increase exponentially as business demands the addition of hardware and software to the IT architecture. Legacy systems are upgraded with additions as new technologies emerge. Besides, it becomes necessary to add network elements such as servers, networks, storage systems, and management systems. The organisation needs to continually upgrade its facilities and expand the scope of the IT processes and organisational structures that support them. It is in this vibrant set-up that information plans and policies have to be continually devised and upgraded to keep the systems relevant and compatible to organisational needs. Top management support is vital though many in the top hierarchy many not really understand the technological intricacies of the IT systems their organisations use. Yet, critical decisions related to huge investments need to be taken. Hard-to-find IT experts need to be recruited and retained. IT infrastructure needs to be state-of-the-art. Novel and, often unanticipated, problems need to be dealt with. These are some of the challenges that straddle the information management function in the organisations.

Industries such as consumer durables, sophisticated industrial products, and IT industry have special organisational needs of dealing with a customer population that is informed and demanding. Coupled with this is the fact that firms in these industries have to adopt competitive business strategies that require efficiency in customer response. The information management system within organisation has to be designed in such a way that the customers are provided with satisfactory and timely response.

In this section we have seen how information management function augments an organisation's capability to implement its strategies.

Till here, in the preceding five sections, we have outlined the major functional plans and policies. These, however, do not exhaustively cover all the aspects of plan and policy implementation. Several organisations—depending on their needs—could have other functional areas also. For instance, public relations, legal affairs, projects, and exports are other functions which could be grouped in the form of a separate division or department in the organisational structure. Each of these areas would have plans and policies to be implemented. Further, non-manufacturing organisations, like service organisations, could have an entirely different set of functional areas that what we describe here. Hotels, for instance, could have departments like food and beverages, banquet, housekeeping, kitchen services, reception, etc. Keeping in view the functional segregation of activities, plans and policies will have to be changed or modified to suit the requirements of the strategy that is implemented by the organisation.

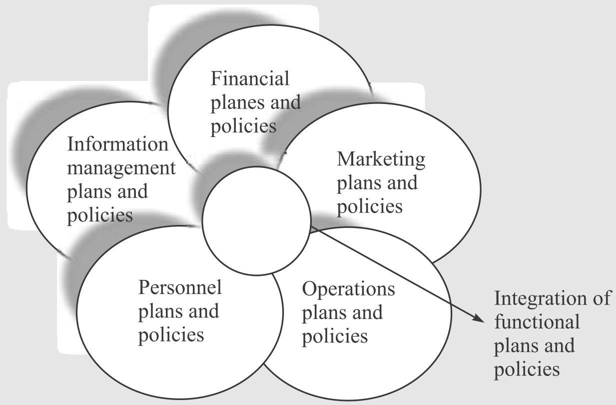
With this we complete our discussion on the functional plans and policies. But as you must have observed, functional areas, and their individual components, do not operate in isolation. Within one functional area, the different factors interact. Then, at a higher level, one functional area interacts with all other functional areas. This calls for integration among the functional areas within as well as across them. This configuration of the different functional areas and their interaction is shown in Exhibit 13.10. We take up this issue in the next section.

13.7 INTEGRATION OF FUNCTIONAL PLANS AND POLICIES LO 7

Functional tasks are derived from the key activities that have to be performed for the implementation of the corporate and business strategies. The functional areas in any organisation are therefore, based on the segregation of the key activities. But what has been segregated will have to be brought together since all activities are performed to achieve the overall objectives of any organisation. Integration of functional plans and policies provides the means for such an aggregation. We are also much concerned about integration of functional areas as it is of one of the objectives of the subject of strategic management. Students of this subject should be able to appreciate not only how different functional areas operate but also how these areas are integrated into a coherent whole.

Exhibit 13.2 presented a simple version of how the configuration of functional plans and policies are arranged and interconnected. Exhibit 13.10 shows a different diagrammatic representation of the interrelationship of the functional plans and policies. Observe that the different functional areas are not distinct and therefore overlap with each other. In real-life organisations it is often difficult to distinguish between which activities belong exclusively to which functional area. Organisations need to evolve mechanisms to create coordination and achieve unity of effort to achieve objectives. In order to do this, there are certain considerations in integration that we discuss next.

Exhibit 13.10 Integration of Functional Plans and Policies

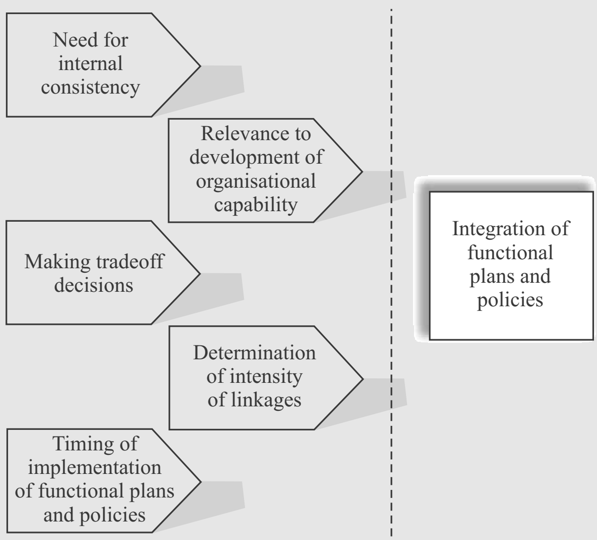


Considerations in Integration

The considerations of vertical fit and horizontal fit, discussed in the beginning of this chapter, help to explain why integration is necessary for the different subsets of functional plans and policies.

Plans and policies formulation is a major task of strategists. They have to formulate the various functional plans and policies and integrate them as well. Glueck has referred to some issues that affect integration.[32] We refer to those issues here and discuss them as being the major considerations before strategists. Exhibit 13.11 shows the five considerations in integrating functional plans and policies. A description of each consideration follows:

Exhibit 13.11 Five Considerations in Integrating Functional Plans and Policies



Sources: Based on theoretical matter in W. F. Glueck and L.R. Jauch, *Business Policy and Strategic Management*, 4th ed. (New York: McGraw-Hill, 1984): 360–62.

1. Need for internal consistency;
2. Relevance to development of organisational capability;
3. Making trade-off decisions;
4. Determination of intensity of linkages; and
5. Timing of implementation of plans and policies.

Need for internal consistency: The need for internal consistency arises due to the segregation of key organisational tasks. Internal consistency in the various functional plans and policies ensures that the different functional areas do not work at cross-purpose but operate in consonance. Absence of internal consistency may lead to a suboptimal implementation of strategy. For instance, an organisation which adopts a strategy of rapid expansion through differentiation may have an aggressive marketing policy, R&D emphasis on operations, a conservative financial approach to sources of funds, and a progressive personnel policy. Among these functional areas, finance is likely to create a problem as a conservative use of sources of funds may limit the options for the use of internal generation of resources. If the company is in a position to finance its rapid expansion strategy through its internal sources alone, the policies would be consistent. But often, funds through internal sources are inadequate for rapid expansion and, therefore, a conservative financial policy would be inconsistent with other financial policies and the requirements of the strategy.

Relevance to development of organisational capability: The development of organisational capability, especially in terms of strategic or competitive advantages, is relevant to the integration of functional plans and policies. Synergistic effects occur across functional areas and core competencies emerge as a result of the concentration of resources in the areas where an organisation wishes to build up strategic advantages. This can be observed in the case of a company which is, or intends to be, a market leader, a low cost producer, a technologically superior competitor or an ideal employer. For achieving each of these objectives, an integrated approach to functional plans and policies would be necessary. For instance, a company which intends to be a market leader would have to offer products of the best quality at a competitive price through an efficient distribution network supported by an aggressive promotion policy. The other functional area plans and policies would have to support these marketing policies. Operations management will provide volume-production efficiency, financial policies will be expected to adopt a liberal approach to sources, usage, and management of funds; personnel policies will be geared to higher productivity; and all functional areas will be supported ably by effective information management. In this manner, the development of organisational capability in any one or more areas would critically depend on how well the functional plans and policies have been integrated.

Making trade-off decisions: The formulation and implementation of functional plans and policies involve trade-off decisions. This is due to the inherent nature of the functional areas. Marketing-orientation in functional plans and policies is in some ways contradictory to operations-orientation: marketing would typically emphasise low-volume, specialised production while operations efficiency would demand large-volume production with lesser product variety. Strategists have to realise that some sacrifice in the form of trade-off in one or more functional area(s) is imperative if emphasis is laid on other functional areas. In fact, the integration of functional plans and policies serves to minimise the aberration due to trade-off decisions and optimise the overall implementation of strategy.

Determination of intensity of linkages: The intensity of linkages that exist between the different functional areas is an important consideration in determining the level of coordination that should exist between different functional areas. For instance, a strategy which is built upon high technology and superior quality products requires close contact between R&D, product development, and production departments. Likewise, a strategy based on low-cost, mass consumer items would require a higher level of coordination between marketing and operations. It would be pertinent to point out here that the intensity of linkages is not constant and may vary with the requirements of strategy from time to time.

Timing of implementation of plans and policies: Integration of functional plans and policies is dependent on the timing of their implementation. The different functional plans and policies have, therefore, to be implemented at the appropriate time so that they dovetail with each other. Implementing a stringent financial policy when operational efficiency or emphasis on R & D is a major consideration may prove to be untimely. Similarly, a failure to implement a development-oriented personnel policy may be inopportune when the strategy leads the company to high-tech specialised areas where availability of trained professionals is a key success factor.

The five issues discussed above have to be considered by strategists if effective integration of functional plans and policies has to take place. But that is only a part of the story. The other part is to devise mechanisms to integrate the functional plans and policies.

Mechanisms to Integrate Functional Plans and Policies

Strategists have to arrange for mechanisms that will ensure integration among the different functional plans and policies takes place. These mechanisms are in the form of horizontal information linkages to augment horizontal fit among different functional areas in an organisation.

We describe here five types of mechanism used for integrating functional plans and policies through horizontal information linkages.[33]

Information systems: Horizontal information linkage aimed at cross-functional coordination between different departments or functional areas in an organisation is often achieved through the means of information systems. This is usually seen in the case of large organisations that are geographically dispersed. An example is of Indian Farmers Fertilizer Cooperative Ltd. (IFFCO) where extensive enterprise-wide information system is in place. It has a corporate resource centre at Delhi connected through a wide area network to all State and area offices. Each State and area office has its own local area network. The information system serves as horizontal information linkage that enables implementation of policy changes simultaneously at all locations, elimination of duplication in work, and consolidation of information for decision making. Another illustration is of Max Healthcare that uses hospital information system to connect all the geographically-dispersed locations through a wide area network. This real-time system enables functional integration in multiple locations through making patient records available to doctors, nurses, laboratory technicians, and pharmacists. The system integrates the functions of appointment, out-patient department, nursing, radiology, pathology, and materials management.

Direct contact: Personal interaction between personnel involved in a project or discharging related functions is achieved through direct contact. One way for organisations to create direct contact is to create a special liaison role and assign it to a person who is responsible for communicating and achieving coordination. The need for direct contact can be realised in the case of agricultural extension services. Basically these services are meant to transfer agricultural technology from research institutions to the farmers. A structural arrangement such as the *Krishi Vikas Kendra* that many State governments have in India are able to perform the function of agricultural extension more effectively if there is direct contact established between research personnel, agricultural extension personnel, and the farmers who are supposed to benefit from technology transfer. Another approach is to locate personnel close to each other physically and who can establish contact on a regular basis. Horizontal linkage between two or more departments such as engineering and product development or operations and marketing need effective coordination to carry out the tasks assigned to them. During the development of Spectra two-wheeler indigenously at TVS Suzuki, direct contact between personnel from marketing, R&D, manufacturing, engineering, production, sourcing, and finance was established as they all sat on the same floor.

Task forces: A temporary organisational unit created to discharge a particular function or resolve a special problem is a task force. A task force draws members from all the departments that are involved in the performance of a particular task. Usually, a task force is disbanded after the task is accomplished. Defence organisations such as the army use task forces extensively for various purposes. Task forces also are favoured organisational arrangements by governments and bureaucracies in which case they are usually called committees. These committees are assigned a specific task which is called 'the terms of reference'. Members of the committee are drawn from all the government ministries (inter-ministerial committee) or departments (interdepartmental committee) who establish direct contact as well as other means of communication to deliberate upon and recommend solutions to problems. Companies use task forces for myriad cross-functional functions such as preparing policy manuals, product development, implementing concurrent engineering projects or IT-hardware vendor selection. Consultancy organisations may use task forces having members drawn from different specialties to offer single-point service to their clients.

Full-time integrator: A stronger horizontal linkage is established through the creation of a full-time position or even a department solely for the purpose of cross-functional coordination. Full time integrators are found in matrix organisation structure. A full time integrator position carry titles such as programme manager, project manager, product manager, or brand manager. These managers do not report to any of the functional departments but work outside to pull through the process assigned to them through the various departments. Typically, a programme manager may formulate the implementation plan, draw detailed schedules and milestones for achievements, and then execute the programme integrating efforts from different functional areas and collaborating with suppliers, contractors, partners, and customers to achieve the programme objectives. Wipro appoints a person at the level of general manager who is assigned to merger and acquisition activities. This person is responsible for identifying issues, what has to be done, and for actual integration post-acquisition by using internal teams where technical expertise is required.

Teams: A team is the strongest horizontal linkage mechanism as it is a permanent task force and often used in conjunction with a full-time integrator. When an organisation requires a high level of coordination over a long period of time then teams are the appropriate mechanism to use to achieve cross-functional integration. Large-scale projects within organisations are implemented through project teams. With the development of information systems it is possible to have virtual teams having members not in direct contact. Organisations may use teams for various purposes such as implementing change management, organisational development, total quality management, and other such significant, non-routine activities having a high strategic significance.

Exhibit 13.12 presents a comprehensive account of the functional policies followed by a major consumer durables global company in India. The purpose of this exhibit is to present a composite picture of different functional plans and policies of an organisation. The discerning reader can observe how the integration of functional policies is attempted and, importantly, where such an effort might be missing.

Exhibit 13.12 Integrating Functional Plans and Policies at LG Electronics

LG Electronics India Private Ltd. (LG) is a wholly-owned subsidiary of LG Electronics of South Korea. Set up in 1997 in India, LG has two manufacturing units in Greater Noida, U.P. and Pune, Maharashtra. The business portfolio of LG in India consists of televisions, home theatre systems, refrigerators, washing machine, computer monitors, and smartphones, and commercial products.

Considered a market leader in consumer durables and a significant player in the IT and mobile telecom businesses in India, LG has differentiation business strategies in each of the four businesses. It focuses on premium products in each category coming out with high-end products as well as attempting to create a nationwide network of distribution outlets which it calls 'the experience zones' to match the ambience with the high-class products.

Operating in the highly competitive consumer durables market, LG is conscious of the high value of the marketing function. Its brand management comprises of four basic elements of values, innovation, people, and passion. Positioning is aimed at 'enhancing customer's life (and lifestyle) with intelligent features, intuitive functionality, and exceptional performance.' Advertising slogan 'Life's Good' attempts to express its brand values, promise, benefits, and personality. LG's website has interactive features such as the service centre locator, complaint registration, information about warranty and annual maintenance contracts. Distribution is through the exclusive showrooms, LG Brand Shoppe and through the distribution network including consumer durable stores, speciality stores, and hypermarkets. It also has an online LG brand store. After-sales service is a major component of marketing function. LG has its own centres and well as outsourced ones.

Realising the worth of HR, LG has adopted the idea of 'Great Company, Great People'. The HR system has been streamlined by integrating it with IT such as the online recruitment management system. The aim is to shorten the time in the selection process. Psychometric tests are a part of the selection process to assess the cultural adaptability of prospective employees. Induction and on-the-job training are essentials of the HRD policy. LG has several policy measures in place to create congenial working and industrial relations environment. An open communication policy helps to keep the workers in touch with management. Effective internal communication, such as in-house journals, newsletters, E-notice board, family days and pizza meetings, try to give the employees a sense of belongingness and ownership.

LG Global is a research-intensive organisation with research laboratories around the world. Design centres, one of them at Delhi, work on innovation and product improvement of its high-end products. There is a quality charter emphasising customer focus, market-driven nature of operations policies and a service charter focusing on providing customer delight.

LG Global has a structured IT set-up using ERP and supply chain solutions. LG first tried a customer information system in early 2000 and then switched to Oracle e-business suite to drive its ERP and marketing activities. Three data centres operate at New Delhi and Pune. Leasing IT equipment like servers is another IT policy. The Oracle applications implementation is aimed at integration with the parent company and other LG businesses worldwide. Within, the applications work in financial management, purchasing, manufacturing, sales, inventory management, and HRM.

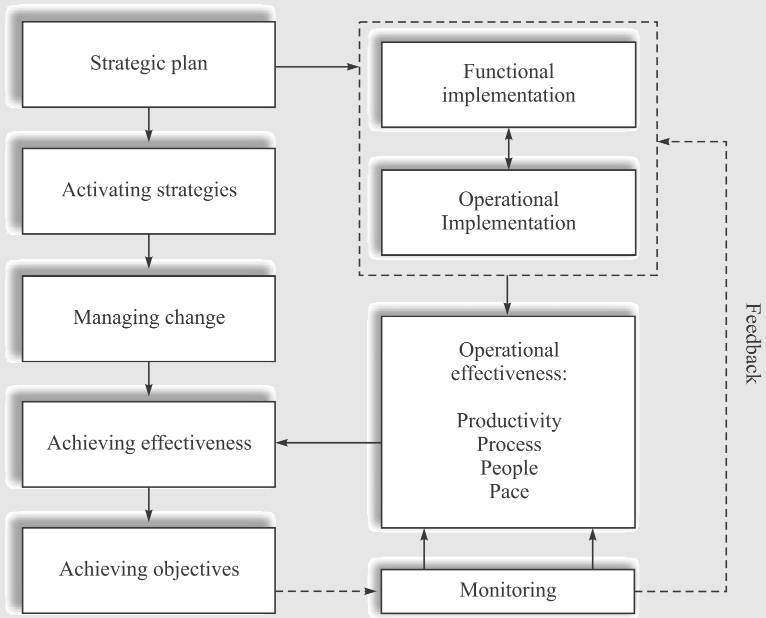
Sources: 'Project CIS Casts a Golden Eye on LGEIL,' *Express Computer* (11 October, 2004); 'LG Electronics selects Oracle e-biz suite,' *The Hindu Business Line* (3 May, 2005);'Trading Places,' *The Economic Times*(16 May, 2007); LG Electronics India website at *http://www.lg.com/in/*and LG Global website at *http://www.lg.com/global/about-lg*. Retrieved 7 November, 2014.

After a discussion on the five considerations in integration of functional plans and policies and a concise description of the mechanisms for integrating cross-functional plans and policies we now move to the other aspect of functional strategies dealing with the horizontal fit i.e. operational implementation.

13.8 OPERATIONAL IMPLEMENTATION LO 8

While discussing the concept of horizontal fit we referred to operational implementation. We said that *operational implementation* is the approach adopted by an organisation to achieve operational effectiveness. In this section, we deal with operational implementation. This is the final aspect of strategy implementation that we discuss. Operational implementation deals with the nitty-gritty of strategy. This is the time for action as this is the stage at which the most tangible work gets done. Obviously, the scope of operational implementation would be very wide. It would cover practically everything that is done in an organisation. It is the major task of line managers. Just like a war is won ultimately on the basis of ammunition and supplies rather than grand strategies alone, the success of corporate and business strategies crucially depends on how operational implementation is done and in what way operational effectiveness is achieved. Have a look at Exhibit 13.13 before you proceed further to understand the position of operational implementation in the overall framework of strategy implementation that was present earlier in Exhibit 10.4. Observe that operational implementation plays the key role in helping an organisation achieve effectiveness which is then monitored by the evaluation and control process.

Exhibit 13.13 Operational Implementation Plays a Key Role in Achieving Effectiveness



Operational Effectiveness

There is an anonymous quote which goes like this: 'Before we invested in TQM, the rap on our company was that we churn out poorly made products that customers don't want. Now after TQM, things have changed. We churn out well-made products that customers don't want.'[34] Obviously, this company is operationally effective but strategically still unsuccessful.

Porter considers operational effectiveness as necessary but not sufficient to the success of strategy. He explains the term as 'performing similar activities *better* than rivals perform them. Operational effectiveness includes but is not limited to efficiency. It refers to any number of practices that allows a company to better utilise its inputs by, for example, reducing defects in products or developing better products faster'.[35] Further, he cautions that operational effectiveness and strategy are different. Both are necessary but the agenda that each pursues is different. Strategy aims at reinforcing and extending the organisation's position while making trade-offs and tightening fit. Operational effectiveness, in contrast, involves continual improvement through constant change, flexibility, and relentless efforts to achieve best practice.[36]

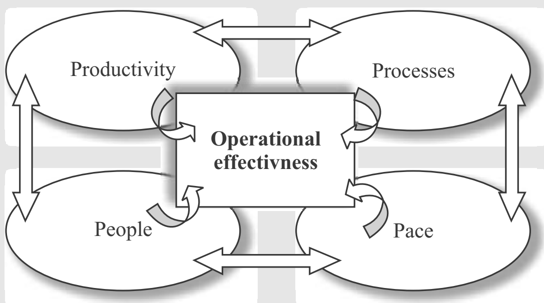
Differences in operational effectiveness between organisations are omnipresent. Some organisations outperform their competitors by extracting more out of their resources because they are able to perform a range of activities better than their rivals. They deploy resources more economically, employ more advanced technology, establish better partnerships with their stakeholders, motivate their employees in a superior way, and generally seem to have a deeper insight into managing particular activities or sets of activities. At the core of a successful strategy lies the capability to achieve operational effectiveness. No wonder, many people unwittingly equate operational effectiveness with strategy.

One of the fundamental objects of the discipline of management has been to enlighten and guide organisations how to improve their operational effectiveness. In doing so, a number of practices have developed over a period of time. A majority of these developments relate to the basic issue of improving operational effectiveness.

Managers have desperately looked for new practices, techniques and methods that can help them improve operational effectiveness. Often this search has led them to encouraging results; sometimes, though, it has resulted in disappointment. We will refer to this issue again later in this section.

The scope of operational implementation and operational effectiveness is very wide. Most of you, the readers of this book, are likely to be either students—the aspiring executives—or middle-level managers. You have learnt about several management practices in the area of strategic management and in other courses as well. The functional area courses (such as marketing or finance) and core courses (like, economics or quantitative methods) deal primarily with the techniques, methods, and practices—all meant to help organisation improve operational effectiveness. All these come to the fore during the course of operational implementation. This section would, therefore, not attempt to achieve the impossible, i.e. to discuss all the practices in operational implementation. Rather it would endeavour to draw your attention to the critical areas of operational implementation and point out some representative practices. For discussing operational implementation, we propose to deal with operational effectiveness in terms of the 4-P's framework consisting of productivity, processes, people, and pace. Exhibit 13.14 presents a diagrammatic view of the operational effectiveness we adopt here. Note the arrows indicating interrelationship of the 4-Ps. Each of these contributes to operational effectiveness and at the same time also interacts with the others.

Exhibit 13.14 The 4-Ps of Operational Effectiveness



The Areas of Operational Effectiveness

The four areas of operational effectiveness we deal here are of *productivity*, *processes*, *people*, and *pace*. By considering these we expect to cover all the major aspects of operational implementation. All these terms are familiar to you but we reiterate the meaning here to set the tone of further discussion.

Productivity is the measure of the relative amount of input needed to secure a given amount of output. It is frequently expressed mathematically as the ratio of the quantity of output to quantity of input. Inputs are resources such as finance, raw materials, machinery and equipment, information, time, or management. Outputs are the products and services.

Processes are courses of action used for operational implementation. Processes are often implemented through methods. These methods are systematic and orderly procedures and consist of sequential steps implemented in a chronological order. The purpose of all processes is to achieve optimum utilisation of resources.

People are the stakeholders in the organisation. The significant people are the investors, employees, suppliers, and customers. Among these, employees play a direct and central role in operational implementation.

Pace is the speed of operational implementation and is measured in terms of time. Efficiency is the parameter often used to express the pace of operational implementation. Efficiency is the amount of work done (or performance) per unit time.

Observe that these areas of operational effectiveness are not mutually exclusive. A practice chosen to achieve productivity adopts a process that is followed by people and is executed at a defined pace. What is important is the overall effect achieved, i.e. operational effectiveness. This is the reason why horizontal fit is so important to operational implementation.

Next, we take up the four areas of operational effectiveness for discussion. But let us clarify two points before we discuss the four areas of operational implementation.

First, we said above that by taking up these four areas we hope to cover the major aspects of operational implementation. Yet the scope of operational implementation is so wide that other aspects may have to be included in practice. For instance, profitability may be an aspect that matters at the level of operational implementation. The several small activities that make up operational implementation contribute to profitability. So, some of you might feel that profitability should also be included as an area of operational implementation.

Secondly, within one area we include practices that primarily relate to that area. To some of you it may seem that the practice we place in one area should really belong to another area. This is understandable since the integrated nature of operational implementation makes it possible that one practice contributes to more than one area. For instance, a productivity practice may also contribute to better process, or vice versa and usually leads to faster pace.

The discussion that follows will primarily be in terms of the practices, techniques, and methods used in a particular area. These practices have been proposed from time to time by management theorists, practitioners, and consultants. Sometimes the ideas have been borrowed from other disciplines and adapted. These practices, techniques or methods are derived from the concepts, theories, and models which, in turn, have been sourced from management thoughts and philosophies. There has been a virtual explosion of management philosophies, theories, and practices in the second half of twentieth century and the trend continues, though a little mellowed, in the twenty-first century. Environmental factors, to a large extent, have been the stimuli for these practices. So, if scientific management held sway over management practice in the beginning of the twentieth century then the application of IT assumed greater importance by the close of the millennium. We started this millennium with the realisation of sustainability of our actions on natural environment. Along the way, we have seen the rise and fall of management practices. We will close this section by referring to this issue but before we do that let us have an overview of the management practices in the four areas of operational effectiveness. More emphasis shall be laid on the modern practices so that you are able to relate to the role that they play in operational implementation.

Productivity

One of the earliest practices to be adopted for operational effectiveness is of scientific management propounded by Frederick Taylor in the beginning of the twentieth century that focussed on optimum utilisation of resources such as workers, machine, and time. It led to the development of work study techniques of time and motion study that are still used in industrial engineering. Operations research techniques came to be used during and after the Second World War. Linear and non-linear programming helped in development of techniques aimed at optimum utilisation of resources. The 1970s saw the computer applications to manufacturing enhancing substantially the productivity of operations. Computer-aided design (CAD) and computer-aided manufacturing (CAM) permitted the resolution of problems that would otherwise not be possible owing to the vast amount of computations involved. The 1980s witnessed the spread of quality and productivity techniques popularised by Japanese firms. The 1990s saw a virtual explosion in terms of techniques and methods for productivity improvement. In a large measure, these were motivated by the pressure of Japanese competitive superiority in manufacturing and quality over the American and European firms. The ongoing decade of the twenty-first century has seen the relative decline of Japan as compared to China that has gained the second position among the world's large manufacturing economies.

The modern practices of productivity enhancement are an amalgam of the traditional methods, variations made upon the traditional methods, and new methods. Automated assembly lines, for instance, can be seen as an extension of the scientific management philosophy aided by computerised manufacturing by computerised numerical control machines and implemented through flexible manufacturing systems incorporating cellular manufacturing layout and robotics technology.

The significant modern practices for productivity enhancement are briefly described as follows:

Just-in-time manufacturing (1970s) is a Japanese productivity technique designed to tackle cost reduction from a system-wide perspective. It is a comprehensive approach and includes simpler product designs, fewer parts requirements, streamlining of process flows, fewer changes, and reduction of production set-up times. Such a production system requires fewer suppliers who supply small quantities in a perfectly timed arrangement resulting in practically no inventory.

Cycle time reduction (1980s; though the concept of cycle time is much older) aims at minimising the time taken for work to be done allocated at each workstation on an assembly line.

Group technology (1980s) is a way of organising and using data for components that make up a number of products and have similar properties and manufacturing requirements. Assimilation of data helps in avoiding duplication of design and manufacturing a variety of products.

Mass customisation (the early 1990s) attempts to blend the desirable attributes of mass production and customised production.

Concurrent engineering and processing (the early 1990s) involves integrated, simultaneous design of products or services and their related processes including manufacturing and support. It is intended to involve designers and engineers from the time the customer requirements and product concept are defined.

Optimised production technology (1980s) is a computer-based system for planning production, materials requirements, and resource utilisation through focussing on the bottleneck work centres and careful management of materials and resources related to those centres so that the output is maximised and inventories are reduced.

Flexible manufacturing system (1980s) is a computer-controlled process technology suitable for producing batches of a variety of products quickly and of a high quality. It falls between the traditional high-volume mass production and job-shop type of production systems and retains the advantages of both.

Cellular manufacturing (1980s) is a system where the arrangement of production facility is done in such a manner that equipment used to make similar parts or families of parts are grouped together. This idea seems to be quite close to the traditional concept of process layout based production system.

Total productive maintenance (1984) challenged the traditional concept of maintenance as reactive problem-fixing to a comprehensive system of managing productivity through organisation-wide autonomous maintenance done by everyone rather than a department alone.

Lean manufacturing or *lean operations* (1990s) is based on the thinking that all the stages of manufacturing between sourcing to marketing should be so integrated that variety of products are produced with minimum resources and at the exact time that they are required.

Complexity reduction (2000s) aimed at reducing the complexity that sets in when businesses grow beyond the capacity of the bureaucracies that manage them. The approach helps manage the costs and benefits of optimising product offerings, operational processes, organisation structure and IT systems through a combination of lean and streamlined product lines, end-to-end processes and a business-oriented portfolio.

Business productivity management (post-2000) is a holistic approach used to integrate and streamline end-to-end management of the whole organisation.

The advent of twentieth century has seen the continuing proliferation of productivity enhancement measures by organisations. Relentless competition and rise of emerging economies including China and India have been shaping the discourse in management with increasing intensity though the US continues to remain the world's largest manufacturing economy followed by China and Japan. Japanese manufacturing skills, for instance, in the case of the 'simple, slim, and speedy' Toyota production system continue to mesmerise managers around the world as the ideas of lean manufacturing are shaped into a fine art. The phenomenal rise of the Chinese manufacturing prowess has helped to create an increasing awareness of the significance of productivity as a significant area of operational effectiveness though there are concerns regarding the quality aspect—an area in which the Japanese maintain the lead.

Productivity, as a practice for operational implementation, is significant for all types of strategies but is especially relevant for business strategies of cost leadership, differentiation, and focus. Productivity improvements have tremendous potential for exercising cost control and effecting cost reduction resulting in the implementation of cost leadership strategies. Disaggregating of process, possible through, say, flexible manufacturing systems, makes it possible to reap the advantages of mass production and batch manufacturing making it possible for the firms to implement differentiation strategies. Similarly, focus, based either on low-cost or differentiation, is possible. As you must have noted most modern productivity improvement techniques attempt to retain the advantages of mass production that is low-cost with customised production that is necessary for differentiation to be created. Internationalisation strategies benefit from the ideas in the area of productivity improvements as mass production help to lower cost and create the need for larger markets to sell to.

Processes

Process refers to tasks and activities that acting collectively transforms inputs into outputs. Processes have an overwhelming presence in management. The term 'management' is defined in terms of the managerial processes of planning, organising, leading, and controlling. Decision making in management and strategic management are processes too. The functional areas of marketing, finance, operations, HRM, and information management operate on the basis of well-established processes. These functional areas have myriad processes such as selling, marketing research, budgeting, inventory control, maintenance management, staffing, management development, and information processing.

The history of management is replete with examples of processes designed to make human work systematic and meaningful. From Henri Fayol's (1916) process-model of managerial activities of planning, organising, command, coordination, and control through Peter Drucker's (1973) enunciation of the practices of management to the process of knowledge management formalised by Tom Davenport (1998) the quest for processes has been rewarding though tortuous at times.

The modern practices related to processes are several. The major comprehensive processes are briefly described next.

Quality management systems such as total quality management (TQM), based on W. E. Deming's (1986) theory, and total quality control, an empirical Japanese administrative system aid in operational implementation of quality management processes. Japanese organisations integrate TQM programme implementation tightly with the strategy through a process called *hoshin kanri* (lit. policy deployment). Motorola's six-sigma system (announced in 1994; though its use was made much earlier by the company) of measuring, analysing, improving, and controlling quality rigorously in processes and sub-processes so that just defect rate is 3.4 per million units.

Michael Porter's (1980) *value chain analysis*, dealing with the set of interlinked value-creating activities performed by an organisation, helps in examining all the activities that a firm performs and how they interact. This could result in process improvements. The concept of value-chain led to the development of several concepts in the 1980s and 1990s.

Business process reengineering, propounded by Michael Hammer and James Champy (1993), aims at transforming or reinventing organisation for greater efficiency and deals with the fundamental rethinking and redesigning of business processes to achieve dramatic improvements in cost, quality, service, and speed.

Enterprise-wide resource planning (ERP of the early 1990s) are software packages that link the isolated information centres into an integrated enterprise-wide structure of functional and activity databases. These systems are successors to the material requirement planning (MRP I) and manufacturing resource planning (MRP II) systems long used for planning and scheduling the time-phased materials requirements for operations.

Benchmarking (1990s) is the process aimed at finding the best practices within and outside the industry to which an organisation belongs. The purpose of benchmarking is to find the best performers in an area so that one could match one's own performance with them and even surpass them.

Supply-chain management (1990s) traverses the whole value-chain to manage the procurement of a whole range of inputs that are required to produce a product or service so that the process can be performed in an integrated and optimum manner. Vendors, transporters, and buyers become a part of the firm's value-chain and the benefits of process improvements and operational effectiveness are shared by all.

Outsourcing (1990s) is a successor to the traditional make-or-buy concept where portions of value-chain activities are commissioned to external suppliers on the basis of economic analysis so that the firm's own focus is on its core competence. A related concept is of the modular organisation where the value stream, down to its components, is broken down and a decision taken to focus on core activities and outsource rest of the activities to outside agencies who can perform them more efficiently. Here too, the vendors and suppliers are a part of the firm's processing system and the benefits from optimisation and operational effectiveness are shared by all.

Offshoring (the post 1990s) is the trend of relocating some of the organisation's operations to another country to reap the location-related advantage usually of lower cost. There are several variations that have emerged over time such as inshoring, nearshoring, reshoring, freeshoring, and homeshoring. *Shared service centre* (post 1990s) is the trend of consolidating one or more back-office operations used by multiple functions or divisions of an organisation into a single, shared operation.

Big data analytics (the post 2000) looks at the rich data within organisations to gain insights for better decisionmaking. It is related to other processes such as relational database management and business intelligence.

The post 1990s scenario has witnessed proliferation of processes mainly in the area of information management. For instance, social media programmes have been in use by companies for marketing and public relations. Interestingly, the older process of strategic planning remained the most popular among management techniques during the decade 1996-2007 and continues to remain popular with overall satisfaction remaining high.[37] Likewise, scenario and contingency planning continue to retain their popularity as strategic planning techniques.

Processes, as practices for operational implementation, are significant for all types of strategies. Since process improvements is the basic purpose of all new processes there are several benefits of lower cost, better quality, lesser wastage, lower production time, and higher productivity. So processes are relevant for operational implementation of all types of business strategies. For instance, strategic advantage results from the ability of a company to manage its value-chain in a way that enables it to offer better customer value thereby making it more competitive. Also deconstructing value chains by using supply-chain management and outsourcing makes it possible to offer higher differentiation as the firm's own facilities are not tied down to mass manufacturing.

Besides these, strategic management is a configuration of sub-processes of strategy formulation, implementation, and evaluation. In each of these areas we are witnessing a continual growth of new ideas and tools and techniques to enhance the effectiveness of strategic management.

People

Nineteenth century management considered people as just a unit of productive labour within and a member of the buying community outside. Operational implementation was all about taking maximum work out of wage-earners paying them as little as possible. The worker–management relations was the master–servant type or, at best, a paternalistic *mai–baap* (lit. mother–father) connection. The emergence of human relations, industrial sociology, and industrial psychology, and of the ideas of human behaviour and motivation during the period 1930 through 1960 caused a drastic change in the perception of people as a critical resource. The transformation of labour relations to personnel management and then to HRM and strategic HRM is an indication of the change that has taken place with regard to people management.

Operational implementation with regard to people management assumes a wider scope when strategies have to address an extended body of stakeholders. The coverage includes not only people—the employees—within but also outside such as the customers, suppliers, and the society at large. The content of operational implementation, therefore, must take into account activities related to all these stakeholders.

The people factor becoming a critical contributor to operational effectiveness is indicated by a plethora of terms such as job enrichment, empowerment, team-building, multiskilling, knowledge worker, human capital, intellectual capital, organisational learning, knowledge management, and talent management related to employees. Within the organisation there is discussion on developing emotional intelligence among strategic leaders. The focus of competitive strategies and marketing has decidedly shifted in favour of customers as witnessed in customer relationship management. Integrative processes such as supply-chain management include suppliers as a part of the organisational system. And issues such as sustainability, corporate governance, social responsibility, and ethics and value widen the concerns of people management to adopt operational measures to address a wider audience of stakeholders.

Here we focus on some of the major practices related to people management in the contemporary context:

Strategic recruitment and selection encompasses manpower planning aligned with strategies, scientific selection processes designed on the basis of psychometrics to have the right match between employee and job requirements, campus recruitment, and Internet-based recruitment through job and career websites.

Performance management includes aspects such as psychographic testing for placement, carefully designed orientation programmes, flexibility in working hours, application of behavioural sciences in designing motivational systems, building up self-directed teams, empowerment through flatter structures, decentralisation and involvement, effective communication skills, negotiations techniques, and career planning and development.

Training and development is done through increasing emphasis on creativity and innovation, multiskilling, cross-cultural training, and using the principles of organisational learning and knowledge management processes.

*Diversity management*is going beyond the statutory and legalistic requirements to be exclusive in organisations and outside it by including people of different demographic characteristics within organisational groups. Organisations use diversity to create varied groups of employees and serve different types of customers.

Performance appraisal and retention management is done through design and application of formal performance appraisal, pay-for-performance systems that clearly link the performance with the rewards, feedback systems, non-monetary incentives, and employee stock options schemes. Employee engagement is a major concern within organisation to ensure that employees are attached to their organisations, jobs and colleagues.

Separation management is no longer considered just as retrenchment and paying the dues stipulated under law. Exit interviews, early retirement schemes, sabbaticals, voluntary retirement schemes (VRS), and out-placement services are becoming the norm as companies are downsizing.

Besides, the people within, companies are also focussing on customers through customer survey and feed-back, customer ethnography, loyalty management, market research, relationship marketing, and customer relationship management. Investors are provided with better information through transparent disclosures and aesthetically designed corporate annual reports. They are also treated to special discount schemes for the company's product and services.

Companies are becoming more socially responsive to the ultimate stakeholder—the society— by engaging in innovative social development programmes. Emphasis is placed on building up reputation and there is more openness and transparency in providing better service and more information. The scope of corporate social responsibility is widening to include issues related to sustainability of environment. There is talk of 'green strategies' bringing to the fore issues related to physical environment as a major consideration in corporate strategies. Sustainability reporting is becoming common for organisations to account for their efforts in energy saving and pollution control. A renewed emphasis can be seen in terms of ethics in business by stressing on corporate governance within organisations. Spirituality in the workplace gains more credibility as an issue worth considering in making organisations more humane.

As can be seen, people management offers a wide scope for enhancing operational effectiveness.

Pace

The final area that we take up for discussion is the pace. By this is meant the speed of operational implementation. This area is important since time is now recognised as being of essence to strategy implementation. In terms of value-chain, pace can be seen as performing every activity faster than rivals so that strategic advantage results. Operational implementation makes it possible to speed up activities:

Time study was proposed by Taylor and his associates as early as 1900 in order to analyse the sequence of production work to identify wastages and to build up a more efficient process. For most part of the early twentieth century, the traditional techniques prevailed and several of them are still in use.

The nature of managerial work was studied by Mintzberg (1973). While researching on how managers actually spend their time he found that they engage in bursts of activities interspersed by interruptions. This led to a greater understanding of how suboptimal utilisation of time takes place within organisations.

Network analysis and activity charts (1970s), successors to Gantt charts of 1901, have been popular techniques to optimise time and resource allocation by focussing on the critical path. Timely project execution is seen as a source of saving on cost overruns.

Time-based management (the late 1980s), including time-based competition and time-to-market (1990s), are ideas that have been advanced to illustrate the point that time can be used as a strategic weapon. First-movers in competitive markets are assumed to gain advantages not available to late-movers.

Time management (1980s) has emerged as a significant practice to increase productivity and efficiency. Most productivity and process related practices also result in time saving. Organisational mechanisms such as delegation are preferred as they enable managers to focus on critical activities through 'management by exception' or the '80-20' principle. Technological support has made it possible to use time saving devices.

The most significant technology that quickens the pace of operational implementation is the IT. What is remarkable about computers and IT is that almost all the developments have taken place in the second half of the twentieth century prompting some people to call this period as the information age and the economy as the knowledge economy or the new economy. Workers are now knowledge workers since most people within organisation are involved in some aspect of information management.

Information management is the branch of management that deals with the collection, processing, storing, and disseminating of information for the purpose of managerial decision making.[38]

Information system is a system in which data flow takes place between people and organisational units such as departments and functions. From simple transaction processing systems, the development in information system has led to management reporting system, decision support system, group support system, executive support system, and expert support system.

Information technology constitutes the hardware and software that is used in information systems. Embedded information technology is IT that is integrated with the other components such as products and services. Knowledge-based products or services are called as such because their function and performance are embedded within them.

The first-order information system are the single-user systems in applications such as electronic spreadsheets for automation and analysis of record keeping, database management systems for managing data productively, multimedia presentation for integration of data formats of text, sound, image, animation, and video. The second-order information systems are the multi-user and network systems that use telecommunication technology with IT resulting in applications such as electronic mail (E-mail), voice mail, video conferencing, work group conferencing, electronic bulletin boards, electronic funds transfer, electronic data interchange and electronic commerce. The potential of convergence of IT, telecommunication, and consumer electronics technology are being realised in form of greater interactivity. There are a range of cutting-edge technologies such as the Internet technology, applications of wireless, mobile, and multimedia, ubiquitous computing, virtual reality, human-computer interaction, geographic information system, cloud computing, and Internet of everything to name a few transforming the inner and outer world of the organisation.

The concepts of networked organisation and virtual organisation visualise an entity having parts interrelated through information networks created by telecommunications. A virtual corporation out sources almost all the activities to external agencies retaining a core of coordinating functions. This is made possible through networking. Web 2.0 is an upcoming trend that refers to web design and development for social purposes such as social networking, weblogs or simply, blogs or wikis that are based on user-generated content. Organisations are waking up to the immense potential of Web 2.0.

The implications of the developments in information management are mind-boggling and exciting for operational implementation. IT is helpful in both shaping and integrating resources and capabilities. IT has the potential to lower costs substantially and to create competitive differentiation for organisations. It has the potential to enhance the ability of organisations to innovate through increasing access to information sources and sharing information across the organisation. IT is augmenting immensely the capability of organisations to enhance their operational effectiveness. The most significant benefit is in terms of the speed of processing and dissemination of data an aspect what we refer to as pace here. Several of the practices that we refer to in this section—such as flexible manufacturing systems, ERP or knowledge management—have been possible through the application of IT. It is obvious therefore that pace is of immense practical value for all types of strategies.

Choice of Operational Implementation Practices

As we discussed the 4-Ps of operational implementation you must have observed the large number of tools and techniques that have emerged in the area of management. It is a welcome sign of the vitality of the subject of management that new developments take place continually. Yet there is a problem here. The high demand for new approaches and techniques of management has resulted in the emergence of a phenomenon that is referred to as management fashion or fad. Management fads or fashions are defined as 'transitory collective beliefs that certain management techniques are at the forefront of management progress'.[39] According to a research study, at least one new technique has appeared every year during the last 40 years.[40] A research survey found that in the period 1993-2005 organisations used at least 65 different techniques for implementing their policies.[41] There are several research studies that point out the high level of dissatisfaction of organisations with techniques they use. There are also studies demonstrating the high failure rate of new techniques.

Given such a wide array of practices, methods, and techniques for enhancing operational effectiveness, in the areas of productivity, processes, people, and pace, the choice before managers to pick up those to use in operational implementation is indeed difficult. The choice is made even more difficult owing to a factor such as the credibility of the originators of these practices who are often high-profile management consultancy firms or respected academician-consultants. And many of these are global consultancy firms and global management gurus. The presentations are made by them so effectively and are done in conjunction with a blitzkrieg of publicity in the business media that the power of the technique seems to be overwhelming. Managers in organisations are often so impressed by these techniques and their supposed power to bring them quick success that they choose them indiscriminately. The unthinking use of new techniques results in disappointment and soon the technique is termed a fad not worth.

Several management techniques have risen like phoenix and then have bitten the dust. Managers, possibly in their desperate search for panacea for organisational ills, opt for the latest technique and then find that it did not work. This is not the correct approach. The malady often does not lie with the technique but the way in which it is chosen and applied.

Applying Operational Implementation Practices

It is important to remember that any technique has a history, background, context, and requirements. A technique cannot be applied blindly. There are essential pre-requisites to applying a technique and then there are the consequences. Proper understanding of all these aspects is necessary in applying a technique. For instance, supply chain management cannot be applied if the supplier–company relationship is not congenial, the cost of implementation is prohibitive, the quality of products needs improvement, the speed of work within the organisation is sub-optimal, and the flexibility of operations is not there. Then support systems such as information system with adequate inputs of IT are required for the application of supply chain management to be feasible.

There is enough information available regarding the management principles, theory, concepts, and models working behind a technique. On the one hand, managers need to be aware of these to enhance their understanding and gain a comprehensive assessment of the usage of technique. On the other hand, managers need to have an in-depth understanding of their organisation. A matching of what the organisation needs and what the technique has to offer has to be made.

The Management Tools Survey by Bain & Company points out that decision makers can achieve better results by viewing the techniques just as a means to a strategic goal and these techniques are likely to more successful when they are a part of a larger organisation effort.[42] The managers need to derive the areas of improvement from the requirements of the strategy that they are implementing. The organisational analysis can serve as a starting point for identifying the areas where functioning needs to be improved. Having done that, the technique can then be chosen and applied. After all, continuous improvement is the ultimate goal of all implementation as encapsulated in the Japanese concept of *Kaizen*.

Application of techniques is facilitated through the help of books and journals, manuals, in-house experts, and consultants related to the management techniques. A dedicated and patient approach can help managers in applying the practices, methods, and techniques for enhancing operational effectiveness and effective operational implementation.

The next chapter deals with the final phase of strategic management: strategic evaluation and control.

Summary by Learning Objectives

Functional strategies operate at the third level below the corporate- and business-level strategies. Functional strategies deals with a relatively restricted plan providing objectives for a specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the organisational objectives. Functional strategies are derived from business and corporate strategies and are implemented through functional and operational implementation.

The main points covered in this chapter are as follows:

LO 1 *Explain the nature, need and development of functional plans and policies and recognise the relevance of vertical fit and horizontal fit to functional strategies*

- Functional strategies deal with a relatively restricted plan designed to achieve objectives in a specific functional area, allocation of resources among different operations within that functional area, and coordination among different functional areas for optimal contribution to the achievement of the business- and corporate-level objectives.
- Strategies operate at different levels and there has to be congruence and coordination among these strategies that is the vertical fit. The congruence and coordination among different activities taking place at the same level is the horizontal fit.
- Vertical fit leads to the alignment of the functional areas to the requirements of a strategy resulting in strategic management of these functional areas.
- Horizontal fit leads to the alignment of the activities taking place at the working level and is done through operational implementation.
- Operational implementation is the approach adopted by an organisation to achieve operational effectiveness. When an organisation performs value-creating activities optimally and in better way than its competitors can perform it results in operational effectiveness.
- Functional strategies are defined in terms of functional plans and policies which are the plans or tactics to implement business strategies. Plans are made to select a course of action while policies are required to act as guidelines to action. Functional plans and policies, therefore, are in the nature of tactics to make a strategy work.
- Functional plans and policies are developed to ensure that strategic decisions are implemented by all the parts of an organisation; a basis is available for controlling activities, the time spent by functional managers in decisionmaking is reduced, similar situations occurring anywhere in the organisation are handled in a consistent manner, and there is coordination across the different functions.
- The process of development of functional plans and policies is similar to that for strategy formulation. Environmental and organisational factors relevant to each functional area are taken into account, matched to the organisational objectives, and implementation activities such as resource allocation are done.

LO 2 *Describe and illustrate financial plans and policies*

- Financial plans and policies are set in terms of the sources, usage, and management of funds.

LO 3 *Describe and illustrate marketing plans and policies*

- Marketing plans and policies are done in terms of segmentation, targeting, positioning and the areas of marketing mix of product, price, place, and promotion.

LO 4 *Describe and illustrate operations plans and policies*

- Operations plans and policies take into account the production system, operations planning and control, and R & D.

LO 5 *Describe and illustrate personnel plans and policies*

- Personnel plans and policies are based on the personnel system, organisational and employee characteristics, and industrial relations.

LO 6 *Describe and illustrate information management plans and policies*

- Information management plans and policies are formulated on the various aspects of acquisition and retention, processing and synthesis, retrieval and usage, transmission and dissemination, and the integrative, systemic and supportive factors.

LO 7 *Discuss the consideration in and mechanisms for integration of functional plans and policies*

- Since the development of functional plans and policies is based on a process of segregation, integration is necessary to aggregate the functions. Strategists have to take into account considerations of the need for internal consistency, relevance to

organisational capability, trade-offs, intensity of linkages, and timing of functional plans and policies so that effective implementation takes place.
- Mechanism used for integrating functional plans and policies include information systems, direct contact, task forces, full-time integrators, and teams.

LO 8 *Review four areas of operational effectiveness and techniques used in each of them and illustrate the application of these techniques by managers*

- Operational implementation is based on the operational effectiveness areas of productivity, processes, people, and pace. Operational effectiveness is performing similar activities within an organisation better than rivals perform them.
- Productivity is the measure of the relative amount of input needed to secure a given amount of output.
- Processes are courses of action used for operational implementation.
- People are the stakeholders in the organisation. The significant people are the investors, employees, suppliers, and customers.
- Pace is the speed of operational implementation and is measured in terms of time. Efficiency is the parameter often used to express the pace of operational implementation.
- Each of these four areas of operational effectiveness has a range of management techniques and methods several of which are of recent origin.
- Managers face difficulty in exercising choice among the myriad operational effectiveness techniques available. Such choice should be exercised based on the requirements of the strategies being implemented.

The next chapter in part five of this book deals with the last phase of strategic management, i.e. strategic evaluation and control.

EXERCISE

Short-answer Questions

1. Differentiate among vertical and horizontal fit. **(LO 1)**
2. What do functional plans and policies essentially deal with? **(LO 1)**
3. Why does the need for functional plans and policies arise? **(LO 1)**
4. How does the development of functional plans and policies take place? **(LO 1)**
5. What do the financial plans and policies relate to? Why are they important for strategy implementation? **(LO 2)**
6. What factors do the marketing plans and policies deal with? Why are they important for strategy implementation? **(LO 3)**
7. What are the concerns of operations plans and policies? Why are these plans and policies significant for strategy implementation? **(LO 4)**
8. What aspects do personnel plans and policies cover? Why are these plans and policies significant for strategy implementation? **(LO 5)**
9. What aspects do information management plans and policies cover? Why are these plans and policies significant for strategy implementation? **(LO 6)**
10. Why does the need for integration of functional plans and policies arise? **(LO 7)**
11. Enumerate the major considerations of strategists in the integration of functional plans and policies. **(LO 7)**
12. Briefly explain the mechanisms available for integrating functional plans and policies. **(LO 7)**
13. What is operational implementation? What is operational effectiveness? **(LO 8)**
14. Explain the four areas of operational effectiveness. **(LO 8)**
15. Enumerate some of the latest operational effectiveness techniques in the area of productivity, processes, people, and pace. **(LO 8)**
16. What difficulty do managers face in choosing operational implementation practices? How can this difficulty be minimised? **(LO 8)**

Assurance of Learning Exercises

1. 'Congruence and coordination among strategies should take place through vertical and horizontal fit.' Explain and discuss this statement. **(LO 1)**
2. Write a descriptive note on the nature, need, and development of functional plans and policies. **(LO 1)**
3. Describe the major concerns of financial, marketing, operations, personnel, and information management plans and policies. Point out the significance of each functional area plans and policies for strategy implementation. **(LO 2, LO 3, LO 4, LO 5, LO 6)**
4. Consider any organisation of your choice. Adopt the framework used in this chapter and outline the

various functional plans and policies that are being formulated and implemented by that organisation. **(LO 2, LO 3, LO 4, LO 5, LO 6)**

5. A bank wishes to review its marketing plans and policies in order to make them compatible with its business strategy of focused differentiation on corporate customers and high net worth individuals in urban centres of India. Suggest the major elements of the marketing plans and policies the bank should consider implementing. **(LO 3)**
6. Assume that there is a company which operates in a competitive industry in India. It is in the process of adopting a strategy of stability in current operations along with related diversification through backward integration. What should be the ideal mix of functional plans and policies? Highlight the major features of each of the functional areas where plans and policies need to be formulated and implemented. **(LO 2, LO 3, LO 4, LO 5, LO 6)**
7. Describe the major considerations before a strategist for the integration of functional plans and policies. **(LO 7)**
8. Describe the mechanisms used for integration of functional plans and policies. **(LO 7)**
9. In the case of the hypothetical company referred to in question 6 above, how can integration of functional plans and policies take place? **(LO 7)**
10. Access the Internet to locate a company that has recently made changes in its business strategy. Now gather information on its functional plans and policies. Comment on whether the different functional plans and policies are integrated well. **(LO 2, LO 3, LO 4, LO 5, LO 6)**
11. A company wishes to adopt cost leadership business strategy for one of its SBUs. How should it ensure operational effectiveness in terms of productivity, processes, people, and pace? Now suppose, after two years, it wishes to change over to a differentiation business strategy. Identify the changes it should bring in its approach to operational effectiveness. **(LO 8)**
12. Review the major developments in management techniques in the four areas of operational effectiveness. Highlight the more recent ones in your discussion. **(LO 8)**
13. A manager attended a seminar on the latest management techniques and is quite enthusiastic about adopting some of those techniques in his organisation. How should he go about adopting those techniques? **(LO 8)**
14. Debate on the issue: 'All new management techniques are fads until they prove their worth in practice.' **(LO 8)**

Review Case

FUNCTIONAL AND OPERATIONAL IMPLEMENTATION AT KRIBHCO*

Krishak Bharati Cooperative Ltd. (KRIBHCO) is a cooperative society set up for fertiliser manufacturing, registered under the Multi-State Cooperative Societies Act (MSCS), 2002. It was promoted by the Government of India, IFFCO, National Cooperative Development Corporation (NCDC) and other agricultural cooperative societies spread all over the country. Since 2013, it has no government equity participation either by the central government or any state government in India as KRIBHCO has repatriated share capital to the government.

Krishak Bharati Cooperative Ltd. basically operates in the business areas of nitrogenous and bio-fertilisers and seeds. Its fertiliser complex is located at Hazira near Surat in Gujarat, seed plants at various locations in India, and service centres called Krishak Bharti Seva Kendras (KBSKs) at various places in the country. It has equity participation in fertiliser companies within India and in one company in Oman. It has diversified into the power sector through investment in Gujarat State Energy Generation (GSEG). The infrastructure was set up to enter into logistics business that was forward integration aimed at warehousing and container train operations for fertiliser transportation. Besides it has equity participation in various ventures. One line of its business is to import decontrolled fertilisers into the country. The cooperative is managed by a board of directors, senior management headed by a managing director (MD), and functional heads in the areas of operations, finance, marketing, and vigilance.

The vision of KRIBHCO is stated as: 'To become a world class organization that represents the farmer community and maximizes their returns through specialization in agricultural inputs, rural need-based products and other diversified businesses that maximize stakeholders' value.' The mission is 'to act as a catalyst to agricultural and rural development by selecting, financing and managing projects that are both socially desirable and commercially profitable.' There are a range of objectives including making optimum use of its fixed assets, increasing capacity and market share, social objectives to educate, and train and support farmers, transferring technology for modern farming and strengthen the cooperative system. It also aims to diversify into other related business areas such as rural retail, infrastructure, and logistics. Strategies adopted are expansion of capacity and diversification into related lines of business.

The equity capital has been subscribed by about 9,500 cooperative societies. Its net worth is Rs. 3,184 crore constituting equity of Rs. 390 crore and reserves of Rs. 2794 crore. It earned a post-tax profit of Rs. 122 crore in 2013–14 and has been declaring a maximum permissible dividend of 20 per cent for the last 10 years.

Krishak Bharati Cooperative Ltd. has its central marketing office at NOIDA and markets its fertilisers through an extensive marketing network spread over 17 states of India through cooperative and institutional agencies and through its own outlets. The cooperative agencies in its marketing network are located at different levels such as apex, district and *taluka* levels, and village-level societies. The institutional agencies typically involved are the agro-industries corporations and land reclamation agencies. It has in-house sales outlets called the KBSKs. The cooperative offers a direct help line to farmers and advice through KRIBHCO Krishi Paramarsh Kendra. KRIBHCO prepares marketing business plans to guide its' marketing and sales activities. A marketing sub-committee is appointed by the board of directors to oversee the marketing functions as elaborated it the bye-laws of the Society. Future plans include introduction of new products such as water-soluble fertilisers and zinc sulphate.

Manufacturing at KRIBHCO takes places at its fertiliser complex at main Hazira plant in Gujarat and at its other manufacturing and seed-processing locations throughout India where production of urea, ammonia, bio-fertilisers, seeds, and liquid argon gas takes place. It is an ISO-9001: 2008, ISO-14001, and ISO 18000 certified company. Various functions of bagging, handling, and loading in product handling plant are performed through manual product handling process as well as through mechanised bagging machines. Mechanical improvements have also been affected for smooth transfer and conveying of bags in the bagging plant. These efforts have resulted in minimising product loss, avoiding shortfall or excess in loading quantities, minimising the loading time, and reducing the specific bag consumption.

The management information system at KRIBHCO covers it internal operations and the marketing network. The central data centre is located at its corporate office at NOIDA. It provides servers and ERP application services. Web-based software interface has been developed and implemented to integrate with SAP ERP. Access is available to marketing field officers for sales and inventory management. Management dashboards are available to functional directors to monitor their areas through business intelligence tools. Performance management system is available for work improvement and personnel needs. Computer-mediated communication such as video conferencing is used to maintain communication channel between corporate office and plants.

Vigilance is considered important at KRIBHCO on par with other functional areas aimed at preventive as well as punitive vigilance and ensuring transparency and accountability. The vigilance department works for systems improvement and simplification and codification of rules and procedures for the smooth functioning of the Society. There is a chief vigilance officer (CVO) at the head office and vigilance officers at plant and zone levels. There is a three-pronged vigilance policy in place aimed at creating awareness, prevent unethical activities, and punish misdemeanours. The board of directors oversees vigilance through 6-monthly reviews. An internal enquiry is instituted to investigate allegations against the erring cooperative officials.

Krishak Bharati Cooperative Ltd. has formal policies in the area of energy, environment, quality, and safety. It has declared its energy policy and volunteered its commitment towards energy conservation. The energy policy is aimed at optimum utilisation of various forms of energy in a cost-effective manner to conserve energy resources. The Cooperative has set up quality policy and environment policy, which have been framed integrating the energy saving objectives and goals as well. The safety policy of the Cooperative emphasises on the importance of safety and to adherence to safe practices. A safety department performs the functions of ensuring compliance with safety standards.

Krishak Bharati Cooperative Ltd.has a modest HR development set-up where it arranges in-house training and sponsors employees to external training programmes. The personnel and administration department looks after the other HRM functions like recruitment and selection and performance appraisal.

The Cooperative had to undergo a decade-long struggle to wrest control from the government by repatriating shares. This places great responsibility on KRIBHCO management for its expansion and diversification plans and other major business decisions such as dividend declarations to its constituent cooperative societies. It also opened up possibilities for more strategic decisions such as revival of Urvarak Videsh Ltd. (UVL)—a joint venture with Rashtriya Chemicals and Fertilizers (RCF) and National Fertilizers—formed in 2009 to acquire raw material stakes overseas and revive sick fertiliser plants in the country. There are also possibilities such as the one KRIBHCO has with Reliance Communications Infrastructure to use its rural marketing access to provide communications services. KRIBHCO, despite its primacy on vigilance has not been free of controversies. A Central Bureau of Investigation (CBI) enquiry was instituted involving relatives of finance ministry official and a KRIBHCO board member who allegedly were facilitating a joint venture between a Norwegian fertiliser company and KRIBHCO. Another major challenge for KRIBHCO being a processing organisation is environmental protection. There have been instances of its plants being shut down due to gas leakages and environmental pollution.[43]

Questions

1. Keeping in view the status of KRIBHCO as an organisation in the cooperative sector, evaluate and comment on the adequacy of the functional policies in the light of what you have studied in this chapter. **(LO 1, LO 2, LO 3, LO 4, LO 5, LO 6)**
2. Suggest directions for KRIBHCO's top management regarding functional policies in view of its ambitious future plans. **(LO 2, LO 3, LO 4, LO 5, LO 6, LO 7)**
3. Enumerate the steps that KRIBHCO could take for maintaining and improving its operational effectiveness in terms of productivity, processes, people and pace. **(LO 8)**

Notes and References

1. MRF website at *http://www.mrftyres.com/overview*; *MRF Annual Report 2012-2013* at *file:///C:/Users/Admin/Downloads/AnnualReport2012-2013.pdf*; MRF financial results year ending 30 September, 2014 at *file:///C:/Users/Admin/Downloads/SEBI-RESULTS-SEP-2014-WITH-FINAL-DIVIDEND.pdf;* 'Twin Boost to Margins for Tyre Makers,' at *http://www.business-standard.com/article/companies/twin-boost-to-margins-for-tyre-makers-114120400949_1.html;* 'MRF To Invest Around Rs 4,000 crore in Next 3 yrs,' at *http://www.business-standard.com/article/companies/mrf-to-invest-around-rs-4-000-crore-in-next-3-yrs-114120100767_1.html;* 'An Upward Trajectory,' at *http://www.businessworld.in/news/corporate/an-upward-trajectory/708712/page-0.html* All websites retrieved October 22, 2014.
2. M. E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: The Free Press, 1985).
3. W. F. Glueck and L.R. Jauch, *Business Policy and Strategic Management,* 4th ed. (New York: McGraw-Hill, 1984): 332.
4. 'Pushing the Funding Boundaries,' *Project Finance* (December 2006/January 2007): 1.
5. P. Singh, 'Corporate Holdings: Taking Control,' *Business World* (17 September, 2007).
6. S. Modak,'Moving Towards Global Scale,' *Business India* (30 December, 2007).

7. *BHEL Annual Report 2005-2006:*25 available at *http://www.domain-b.com/financials/companies/B/Bharat_Heavy_Electricals_Ltd/2005-06a20078182228828.html.* Retrieved 1 February, 2008.
8. 'Cool and Upbeat,' *The Hindu Business Line* (3 January, 2008) and 'Running Successfully,' *Business Standard* (19 November, 2012).
9. A. Mukerji, 'Monsoon Marketing,' *Fast Company* (April, 2007); 22 and 'The Sky's the Limit,' *The Hindu* (17 June, 2014).
10. P. Engardio, 'A Night's Sleep, Ultracheap,' *Business Week* (23 January, 2006): 73.
11. 'Colgate: Brand Equity Most Trusted Brands,' *The Economic Times* (28 May, 2007).
12. G.K. Nair, 'Cashew Body to Launch Value-Added Products,' *The Hindu Business Line* (1 February, 2008).
13. J. Dubey, 'Expanding Target Segment the Advertising Way,' *The Hindu Business Line* (27December, 2007).
14. A. Chatterjee, 'Customer Competence,' in *Business Today* (7–21 January, 1997): 15–21.
15. M. Kriplani, 'A Red-Hot Big Blue in India,' *Business Week* (3 September, 2007): 52.
16. A. Kazmi, 'Aligning Management Development with Strategy: Some Recent Experiences of Indian Companies,' *Indian Journal of Training and Development*, 30, no. 2 (April–June 2000): 42–52.
17. S.R. Chatterjee, 'Human Resource Management in India: "Where From" and "Where To" ?'*Research and Practice in Human Resource Management,* 15, no. 2 (2007): 92–103 available at *http://rphrm.curtin.edu.au/2007/issue2/india.html.* Retrieved 6 November, 2014.
18. S.K. Bhattacharya, *Achieving Managerial Excellence* (New Delhi: Macmillan India, 1989): 38–40.
19. Foreign companies in India seem to have made a favourable impact on young job aspirants as can be seen from many 'best employer surveys'. Google, Accenture, Microsoft seem to score over many Indian employers. See, for instance, *http://www.greatplacetowork.in/best-companies/indias-best-companies-to-work-for; http://businesstoday.intoday.in/story/business-today-survey-top-5-companies-to-work-for-india-2013/1/208132.html;* and *http://economictimes.indiatimes.com/best_company_2013.cms.* All sites retrieved 6 November, 2014.
20. 'IT Companies Showing Interest in North-East,' *Business Standard* (27 January, 2008).
21. *Economic Survey 2006-2007,* Ministry of Finance, Government of India.
22. R. Pathania,'Industrial Relations in India in the Era of Liberalisation,' *IOSR Journal of Humanities and Social Science,* 2, no. 6 (September–October, 2012): 22–26.
23. C.S. Venkata Ratnam, *Globalization and Labour-Management Relations: Dynamics of Change* (New Delhi: Response Books, 2001).
24. S. Prasad, 'FMCG: Moving Fast on IT,' *Dataquest* (17 March, 2007).
25. K. Shah, 'HPCL' *Network Magazine* (January, 2007) available at *http://www.networkmagazineindia.com/200701/coverstory06.shtml.* Retrieved 5 February, 2008.
26. 'India's 20 Most Wired,' *Business Today* (22 April, 2007): 101–24.
27. M. Banduni, 'An IT Edge for Retail,' *Express Computer* (4 December, 2006).
28. 'Putting Big Data to Work,'*Business Standard*, 1 October, 2012.
29. 'Working Wonders at HDFC Standard Life,' *Express Computer* (1 January, 2007).
30. 'Madura Garments: Weaving a Success Story with Tech,' *India Times,* 20 August, 2004 available at *http://smbzone.indiatimes.com/articleshow/866565.cms.* Retrieved 5 February, 2008.
31. U. Kaul, 'Government on E-mode,' *Dataquest,* 17 March, 2007.
32. Glueck and Jauch, *op. cit.*, 360–62.
33. R.L. Daft, *Organization Theory and Design* (Mason, Ohio: South-Western, Thomson Learning, 2010): 60–66.
34. Anonymous quote from O. Harari: 'Ten Reasons TQM Doesn't Work,' *Management Review,* 86, no. 1 (January, 1997): 38.
35. M.E. Porter, 'What is Strategy?' in *Harvard Business Review* (November–December, 1996): 62.
36. M.E. Porter, 'What is Strategy?' in *On Competition*ed. M.E. Porter (Boston: Harvard Business School Press, 2003): 39–73.
37. The Survey is Bain & Company's *Management Tools and Trends Study* that has been conducted since 1993. The 2013-survey findings can be accessed at *http://www.bain.com/publications/articles/management-tools-and-trends-2013.aspx.* Retrieved 7 November, 2014.
38. Matter about information management and information technology is drawn partly from J.A. Senn, *Information Technology in Business: Principles, Practices,*

and Opportunities, 3rd ed., (Upper Saddle River, N.J.: Prentice-Hall International, 2004).

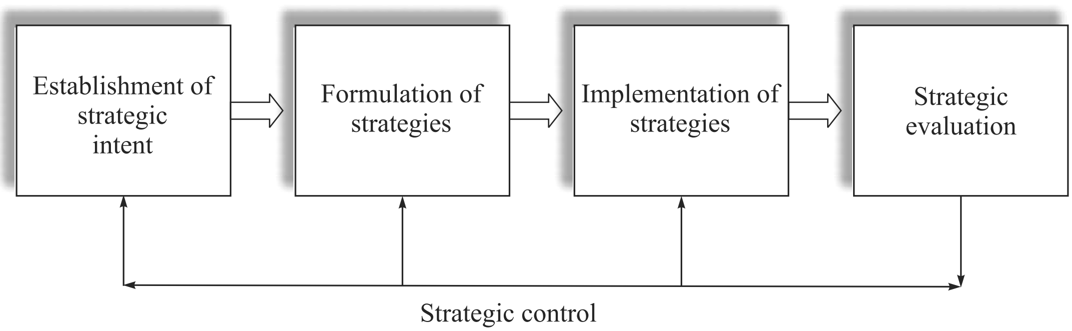
39. E. Abrahamson, 'Management Fashion,' *Academy of Management Review,* 21, no. 1 (1996): 254–85.
40. K. Grint, *Fuzzy Management, Contemporary Ideas and Practices at Work* (Oxford: Oxford University Press, 1997).
41. D. Rigby and B. Bilodeau, *Management Tools and Trends 2005 - Global Results* (Boston: Bain & Company, 2005).
42. *Management Tools 2013 –An executive guide* available at *http://www.bain.com/Images/MANAGEMENT_TOOLS_2013_An_Executives_guide.pdf*. Retrieved 8 November, 2014.
43. KRIBHCO website at *http://www.kribhco.net/;* KRIBHCO 34th *Annual Report 2013-2014* at *http://www.kribhco.net/images/pdf/ann_rep_2014.pdf*; Multi-state Cooperative Societies Act, 2002 is available at *http://agricoop.nic.in/imagedefault/cooperation/MSCSAct2002.pdf;* 'KRIBHCO Goes IFFCO's Way, Wrests Control from Govt,' at *http://www.dnaindia.com/money/report-kribhco-goes-iffcos-way-wrests-control-from-govt-1889442;* 'CBI Begins Probe into Kribhco 'payoff'' at *http://www.thehindu.com/news/national/cbi-begins-probe-into-kribhco-payoff/article5654051.ece*. All websites retrieved November 12, 2014.

PART

5 Applying Strategic Management

Applying strategic management through the case method

The fifth and the last part of this book contain matter for learning and practicing the application of strategic management. We will first have a brief note on the case method and how you could use this pedagogical technique to learn how strategic management could be applied. There are eight comprehensive case studies that you could use for various purposes such as classroom discussions or case assignments. These case studies cover a wide range of industries and organisations. The authors of the cases bring to you international as well as local experiences in your classroom. You can find an industry profile on the cosmetics and toiletries industry in India. You could prefer to discuss the internationalisation strategy of an Indian IT MNC or the domestic context of an entrepreneurial bread maker. For an entirely different context, possibly you could take up analysis of a unique government-non-governmental partnership-based educational project illustrating how strategic management knows no boundaries when it comes to application. From interesting perspectives on a hospital in the North-Eastern India to a social project on providing water to remote areas the case material is designed to provide you wholesome experience of applying the exciting subject of strategic management.



Applying Strategic Management through the Case Method

Most courses in strategic management are often supplemented by, or at times based on, analysis of case studies. This section explains how to apply strategic management through the case method.

The application of case method is explained under the following headings:

- Introduction
- The case method in strategic management education in India
- Approaches to case analysis
- Preparing for case analysis and discussion
- Written analysis of cases
- Oral presentation of cases
- Group discussion of cases
- Industry analysis
- Experiencing the case method
- Limitations of the case method
- Concluding comments

INTRODUCTION

Case method is an old and established pedagogy for learning. First introduced at the Harvard Law School in 1871, it was actually adopted by the Harvard Business School in 1912. In India, right from its inception in 1962, Indian Institute of Management, Ahmedabad (IIM-A) has emphasised the case method as the preferred pedagogy of learning management. Case method is extensively used in the teaching and learning of management around the world today in educational and training programmes.

A case is a narration of events in an organisation under given conditions. Through these events and conditions, the reader gets to know the situation that actually prevailed in the organisation.

Cases provide an opportunity to the students of strategic management to get exposed to a variety of situations, understand and analyse them, and to work out practical, workable solutions. In doing so, the student develops insights into how to view business in its entirety, to appreciate the complexities of managing, and to think of ways of solving problems.

There could be different types of cases. Some cases concern the whole industry and are known as industry profiles. But frequently, cases describe an organisation or even just a part of an organisation. In terms of time horizon a case may relate to a single event or several events over a period of time.

Cases, depending on their length, may contain a variety of information related to the history, external environment, and internal factors of an organisation. They are generally based on information concerning real organisations. But in some cases the real names may be disguised. Then, there could be some cases which relate to hypothetical organisations, but these are normally written to illustrate a particular point rather than to describe a complex situation comprehensively.

THE CASE METHOD IN STRATEGIC MANAGEMENT EDUCATION IN INDIA

The usage of case method in strategic management and business policy in India is closely related to the developments in management education in general. In Chapter 1 we described the Indian scenario with regard to strategic management in India. There we come to know that institutions such as IIM-A following in the footsteps of the Harvard Business School have based their teaching methodology substantially on the case method. Not much is, however, known about how the case method is used in other management education and training institutions in India except from anecdotal evidence.

A survey conducted earlier (Kazmi, 1996) focused, in part, on the usage of the case method in Indian management education and training. It was found that teaching in strategic management in Indian institutions was based partly on using lecture and parly on case methods. Most instructors were using institutional cases provided by IIM Ahmedabad and cases derived from business magazines and journals. The majority of instructors were not happy with the availability and quality of case material in India. The situation was not encouraging then but seems to have changed dramatically over the recent years. There is much circumstantial evidence available of the increasing use of case method in management education in India now.

Sustained efforts are being made by institutions and individuals to develop, apply, and disseminate the case method. There are several institutions engaged in development of cases, though the number is still very less. The *Business World-Cosmode Survey 2004*, for instance, found that the top ten business schools in India produced only 263 cases while Harvard Business School alone produced 300 cases annually. A colloquium on future of case method in management education in 2005, coordinated by Srinivasan, concluded that the case method would continue to structure the education of managers in the future despite changes in the nature of competition and the organizational environment. ICFAI Business School, Hyderabad has been using pedagogy based on 100 per cent use of cases and claims to have got good results.

There are many institutions in India that have set up centres or units dedicated to case research, development and dissemination. Examples of such case centres are the Centre for Case Research at XIM, Bhubaneswar; Centre for Teaching, Learning and Case Development at Indian School of Business, Hyderabad; ICFAI Centre for Management Research; and IIM Calcutta Case Research Centre. There are institutions such as the IIM, Ahmedabad, IBS Case Development Centre, and ICFAI Centre that provide case material on payment.

For instructors, case development workshops are organised where academicians and trainers get together to exchange views and opinions on the use of the case method as a pedagogical tool. The series of workshops on case method organised all over India by the Association of Indian Management Schools, for instance, have proved to be quite useful for teachers in newer business schools and universities. Other institutions such as Indian Institutes of Management and Management Development Institute offer faculty development programmes in management that include a component on the case method. The Strategic Management Forum of India's Management Teachers' Programme includes components on the case method besides having strategy case presentations at its annual conferences and conventions.

There is no specific journal of strategic management cases as yet in India though there are a number of management journals that include special features on cases that might sometimes include cases on strategic management. Some of these journals are the *Chartered Financial Analyst, ICFAI Reader, Indian Journal of Training and Development, Indian Management, and Vikalpa*. There are also periodicals such as *Business*

Today and *Business World* that carry case studies followed by its analyses. Newspapers such as *The Economic Times, The Financial Express, Business Line,* and *Business Standard* provide extensive coverage and special supplements on industries and companies that can be used for case analyses. Recent years have seen some effort towards publishing books containing cases in strategic management. Some of these references appear in the select bibliography at the end of this section on the case method.

The hype surrounding India's emergence as an economic superpower has attracted some foreign institutions that may indirectly help in the development of Indian case studies. The India Research Centre of the Harvard Business School at Mumbai, Ivey Business School of Western University, Canada, Ross Business School of the University of Michigan at Bangalore, and Switzerland's IMD Research Centre at Mumbai are some of these institutions.

APPROACHES TO CASE ANALYSIS

Broadly, two approaches can be adopted for case analysis by management and training institutions: individual presentation and group discussion. Individual presentation can be done through written and oral means. Depending on the type of methodology adopted, institutions can make use of presentation and group discussion approaches either singly or jointly.

The main role of the instructor in case analysis is to stimulate and steer the class or training group to share insights, observations, and thoughts about the case. The major role that participants in case analysis play is to analyse cases and make presentations. In the following sections, we describe how to make preparations for case discussion, make written analysis or oral presentation, and how to participate in group discussions.

PREPARING FOR CASE ANALYSIS AND DISCUSSION

For most students and executives who have not been exposed to formal management education, case analysis is a novel experience. It is important, therefore, to recognise that case method is a radical departure in terms of teaching methodology from the traditional lecture method followed in most Indian universities and colleges.

It is advisable to adopt a systematic approach for the preparation of cases for discussion. The guidelines being suggested here can also be kept in mind by students while attempting case studies in tests and examinations.

The following guidelines are recommended for an effective preparation for case analysis and discussion:

1. Read the case once for familiarity so that you get a 'feel' of the situation described in the case.
2. Read the case again for grasping the facts. Make notes and jot down important points.
3. Evaluate the situation described in the case. Attempt to gain an understanding of the objectives, strategies, policies, problems, causes of problems, issues, and the roles of key individuals.
4. Prepare the environmental threats and opportunities profile (ETOP, discussed in Chapter 4) and strategic advantages profile (SAP, described in Chapter 5).
5. Think of strategic alternatives and suggest the 'best' option (Chapters 6, 7, 8 and 9) and support your proposal with facts, reasons, and arguments.
6. Propose a comprehensive plan for strategy implementation (Chapters 10, 11, 12 and 13 of this book). Keep in mind the feasibility of implementing your suggested strategy, considering the availability of resources, and whether or not the strategic changes will be manageable.
7. Evaluate your proposal; state the quantitative and qualitative criteria for evaluating strategy (Chapter 14) and state the assumptions you have made in arriving at conclusions. Suggest contingency plans should your assumptions prove not to be wholly correct.
8. Prepare notes for oral and written presentation or for participating in group discussions or for attempting the case in the test or examination.

The guidelines given above are not meant to be rigidly followed. Rather each case would call for a unique approach. Not all cases require a comprehensive analysis as suggested above. Some cases are short and need specific analysis pertaining to only one or two aspects of strategic management. But it is good to know the right approach to follow, especially if case analysis is being used for the first time.

WRITTEN ANALYSIS OF CASES

Frequently, participants in the case discussions are required to make written analysis of cases. In doing so, it is important to keep in mind the guidelines that we suggested for preparation for case discussion. Written assignments are now a part of continuous evaluation in management courses in Indian business schools. Question papers of examinations in strategic management also usually include a case for analysis.

We suggest that additional care be taken in making the written analysis of a case:

1. Keep the written analysis simple but do not overlook major issues.
2. Adopt a nice style of writing. Use headings, labels, and topic sentences, and put the whole written structure in an integrated and logical manner.
3. Include analysis based on techniques wherever relevant. Business definition framework, ETOP, SAP, VRIO framework, value chain analysis, industry analysis, competitive analysis, and so forth, are some of the techniques that can be used for good results.
4. Specifically state the assumptions when making recommendations; provide supporting evidence, and benchmarks for evaluation.
5. Provide a one-page summary of the major issues and recommendations made by you.

ORAL PRESENTATION OF CASES

Another popular approach to case analysis is of making oral presentation. Such an approach may not be unique to strategic management but with regard to oral presentation of cases some points have to be kept in mind. Some suggested guidelines that can help in making an effective oral presentation are as follows:

1. Plan well in advance because oral presentation is a difficult—but rewarding—experience.
2. Do not commit the mistake of reading out a written analysis of case. Oral presentation has to be even more precise and convincing. There is not much time available for making lengthy analysis and arguments.
3. Use teaching aids such as black/white boards, overhead projectors, PowerPoint demonstrations, and so on, to present charts and diagrams for enhancing the value of your presentation. Remember: "A picture is worth a thousand words".
4. Rehearse your presentation and be prepared to handle questions from the instructor and fellow participants.

In making an oral presentation, usually the role assumed by the participant is that of a neutral third-party individual or a consultant. In this way, it is possible to make a detached and objective analysis. Sometimes, the method adopted for oral presentation may be that of role playing. This method is similar to the presentation of a play or a drama. Participants may assume the roles described in the case and then actually play before the audience the roles assigned to them. But it is worthwhile to remember that role-playing is a serious exercise and is not to be used as an opportunity to display your theatrical or histrionic talents.

GROUP DISCUSSION OF CASES

Almost all management education institutions in India admit students by a selection process that has group discussion as one of its elements. Selection and recruitment of management trainees and middle-level managers by companies also may be based on group discussion. This form of case analysis, therefore, has much to offer to students in terms of preparing for a career. Group discussion for strategic management case analysis offers an excellent opportunity to participants to hone communication skills and develop a feeling of team work. Also, group discussion is a more realistic process as most strategic decisions are actually made by managers in a group-setting. Further, as you will realise, implicitly case method, as a pedagogical tool, is based on the premise that pooling of knowledge, expertise, and experience of participants can benefit everyone. No wonder, institutions such as the Harvard Business School or Indian Institute of Management, Ahmedabad, have been able to effectively use the case method on the basis of the relatively better quality of students that seek admission to them.

Here are a few guidelines to enable you to make an effective analysis and participate effectively in group discussion:

1. Preparation of the case thoroughly by all participants is an essential prerequisite for effective discussion. Ensure that all the facts are available before participating in a group discussion.
2. A preliminary small group discussion could be informally held before the actual discussion takes place.
3. Group discussion involves challenging someone else's position or defending one's own. This has to be done on the basis of facts, figures, reason, and logic without being aggressive or combative.
4. Keep the principles of effective inter-group behaviour in mind: be communicative and participative; expect and tolerate dissenting views; contribute rather than just talk; and learn to work as a team.
5. Observe that your fellow participants put forth several ideas that probably did not occur to you. Group discussion offers a chance to realise that it is not good to adopt a rigid stances. A *firm* stand is, of course, different from a *rigid* stance. Avoid hesitation in expressing personal views, but at the same time realise that ultimately group performance is tied to the performance of individual members.

With these guidelines in mind, it is possible to make effective use of the group discussion approach to case analysis.

We have provided some simple guidelines and ideas for effective preparation for case discussion, doing written analysis of cases, and presenting analysis orally and in a group. At the end of this section on the case method, you will find a select bibliography that provides major source books for further reading, should you be interested in knowing about this popular teaching and learning method in strategic management.

INDUSTRY ANALYSIS

Case analysis is done for organisations while industry analysis is of a whole industry. Industry analysis is done on the basis of an industry profile which is actually a case of the industry. The typical contents of an industry profile are: history of the industry, stages of life cycle, major companies or players, buyer-side and demand-side patterns and conditions, state of competition, capital requirements, technology level, role and impact of government policies, skills and resources ability, and future prospects.

The purpose of industry analysis is three-fold:

1. To identify strategic issues and problems facing the industry
2. To identify the strengths, weaknesses, opportunities, threats (SWOT analysis), critical success factors operating, and other strategically relevant aspects of an industry
3. To evaluate a business's competitive position and future prospects

In fact, while preparing case analysis, it is desirable to perform a preliminary industry analysis. This provides a good idea about what alternatives a company has; what prospects does each of the alternatives have; and what would be the best strategic alternative for a company. Industry analysis can also help in supporting strategic choice with a wider information base and greater in-depth understanding of industry and competitive factors.

EXPERIENCING THE CASE METHOD

To some the case method of learning may not seem encouraging as cases do not yield clear answers. They might feel being pushed to develop skills of critical thinking and such skills, though important, take a lot of time to perfect, and require patience and diligence. Some, at least initially, may feel stage shy; fear speaking in public or making oral presentations and also risk facing ridicule from some of the aggressive colleagues. In a heterogeneous class, those with no work experience may feel intimidated by those who have had experience before joining the management education programme. Still others might be there who may find it difficult to critique the decisions taken by top managers in the organisations described in the case.

On a positive note, many students have a pleasant experience of being exposed to the case study method. Some prefer the case method because there are no right or wrong answers to the cases unlike solving a statistical or financial problem. Multiple ways of reaching a successful solution excite some learners to enjoy the experience of gaining insight. Depending on the diversity of the group involved in case preparation and discussion, students are often pleasantly surprised by the multiplicity of viewpoints and variety of opinions that participants bring to the case analysis. There are benefits of practicing oral and written communication skills during the use of case method. For instance, students who have not been exposed to the case method earlier may 'discover' that they learn how to articulate their viewpoint, communicate with their peers, and contribute to group communication effectively. They might learn to 'separate the wheat from the chaff' by focusing on the root causes of problems or challenges inherent in a case situation from the mass of data that surround them. They learn to draw out information from the data presented in the form of charts, graphs, tables and financial data. Decision-making skills of students are honed by evaluating the pros and cons of alternative solutions that are suggested and proposing the optimal solution. Students learn to operate in teams while using the case method—a situation which reflects the reality of their future working life.

LIMITATIONS OF THE CASE METHOD

Henry Mintzberg in his highly acclaimed book *Managers not MBAs: A Hard Look at the Soft Practice of Managing and Management Development,* published in 2004, suggests that management is blend of craft (experience), art (insight) and science (analysis). Management education that emphasises one at the expense of another of these components creates imbalance. If analysis is accentuated it makes the managers calculating technocrats; stressing art makes them act in a heroic manner. Neither is desirable. Only a blend of these makes them engaging—balanced, dedicated people who do not believe in just aiming at higher valuations on the stock market but creating a stronger organisation.

Despite its strong credentials as a learning pedagogy, the case method has some limitations of which you must be aware:

1. You must realise that the case method is just a technique for analysing organisational situations in the classroom to develop insights and gaining experience into the complex art of managing. It can never be a substitute for real experience. Cases can often provide misleading simplification of reality of the strategic management process that may not be helpful to students later in life.
2. Case preparation, analysis, and discussion taxes immensely on the students' time that in most business schools in India may be limited as students have to devote themselves to several courses and engage in many curricular, co-curricular, and extra-curricular activities.
3. Case method is essentially a participative method. It fails to achieve its objectives if the student population is such that many of them do not speak out, are lethargic, timid or uninterested. Some of the students also face the limitation of speaking well in English during the discussion and may feel constrained in expressing their viewpoint.
4. Sometimes, case sessions do not operate in ways that help to achieve the intended objectives. This may happen, for example, in situations where there is less time for discussion, there is too much emphasis

on doing a certain number of case studies in a course in the limited time available, too less or too much information is provided in the case or participants indulge in plagiarism by using 'cut and paste' from Internet resources in preparing written cases.

5. A dominating instructor can unintentionally steer the group towards his or her own analysis and recommendations rather than converging on to a group opinion.
6. The case method generally works well for developing oral and written communication skills and facilitating team work. But it must be remembered that these are not the main purposes of the case method.

CONCLUDING COMMENTS

The case method is a powerful pedagogical tool and the advantages so obtained from using it, for learning strategic management, usually overflow to other areas as well. For instance, by analysing cases, you will not only learn about companies but also get acquainted with the parent industry of which these companies are a part of; other companies with which a company competes; the specific and general business environment for a number of companies, and government policies and regulatory framework within which companies operate. At another level, you get a good idea of how different individuals acted in a given situation, how others reacted, and how important organisational processes,such as decision-making, actually take place. Veritably, case analysis is a highly effective experiential exercise. The remaining part of this book contains several cases including an industry profile, which can be used for analysis.

The theory, practice, and cases in this book are all aimed at making you a better learner and practitioner of strategic management. We wish you success in achieving this purpose.

Notes and Select Bibliography

1. Argyris, C. "Some limitations of the case method: Experiences in a management development program." *American Management Review* 5, no. 2 (April 1980): 291-298.
2. Bhattacharya, B., ed. *Theory and Practice of Case Method of Instruction: Texts and Cases*. New Delhi: Excel Books, 2007.
3. Baporikar, N., *Case Method: Cases in Management*. New Delhi: Himalaya Publishing House, 2005.
4. Bhasin, M. L., *Business Policy and Strategic Management – Managerial Experiences (51 case studies)*. New Delhi: Global Business Press, 1996.
5. Budhiraja, S.B., and M.B. Athreya, *Cases in Strategic Management*. New Delhi: Tata McGraw-Hill, 1996.
6. Business World. *Selected BW Case Studies: 1997-1999* and *Selected BW Case Studies: 1999-2000*.
7. Christensen, C.R., and A.J. Hansen,*Teaching and the Case Method*. Boston, MA: Harvard Business School Press, 1987.
8. Commonwealth Secretariat, *The Case Study as a Training Method: A Select Bibliography*. London: Commonwealth Secretariat, New Delhi.
9. Dhar, U. and S. Dhar, ed., *Case Method in Management Education: Text and Illustrations.*2nd edition. New Delhi: Excel Books, 2007.
10. Dhar, U., S. Dhar, and R. Agarwal, *Cases in Management: An Indian Perspective*. PIMR Monograph Series. Indore: Prestige Institute of Management & Research, 2001.
11. ILO, *An Introductory Course in Teaching and Training for Management Development*. Geneva: International Labour Office, 1972.
12. ILO, *Teaching and Training Methods for Management Development*. Geneva: International Labour Office, 1986.
13. Jennings, D., "Strategic management and the case method." *Journal of Management Development* 15 no. 9 (1996): 4-12.
14. Kazmi, A., "Teaching and Research in Business Policy / Strategic Management." *Survey* XXXVI, nos. 1-4 (1996).
15. McNair, M.P., and A.C. Hersum, *The Case Method at Harvard Business School*. New York: McGraw-Hill, 1954.
16. Mohapatra, S., *Case Studies in Strategic Management: A Practical Approach*. New Delhi: Dorling-Kindersley – Pearson Education, 2012.
17. Prasad, A., *Extremely Short Cases on Strategic Management*. New Delhi: Excel Books, 2001.
18. Srinivasan, S.K., (coordinator): Colloquium on "What is the future of the case method in management education in India." *Vikalpa* 30, no. 4 (Oct-Dec 2005).
19. Towl, A.R., *To Study Administration by Cases*. Boston, Mass.: Division of Research, Harvard University Graduate School of Administration, 1969.
20. WACRA - The World Association for Case Method Research and Application with website at *http://www.agecon.uga.edu/~wacra/* has its mission as advancing the use of the case method and other interactive methodologies in teaching, training, and planning.
21. Winterburn, R., *Case Study Method in Management Development: A Practical Guide and Reading List*. London: Commonwealth Secretariat, 1987.
22. Some national resources in India for case studies are: Amity Case Research Centre at *http://www.amity.edu/casestudies/*; IBS Centre for Management Research at *http://www.icmrindia.org/*; IBS Case Development Centre at *http://www.ibscdc.org/case-studies.asp*; ICFAI Centre for Management Research, Hyderabad; Indian Institute of Management, Ahmedabad at *http://cases.iimahd.ernet.in/*; Strategic Management Forum of India; and *http://www.casestudyinc.com/index.html* All websites retrieved January 7, 2015. (Some of these institutions may charge fee for using their case studies).
23. Some international resources for Indian cases include Ivey Business School at *http://www.ivey.uwo.ca/india/cases/publishing/*; Aditya Birla India Centre at London Business School at *http://www.london.edu/facultyandresearch/researchactivities/birlaindiacentre/casestudies.html*. Both websites retrieved January 7, 2015.
24. Indian case studies are also in demand internationally as interest in India as a major emerging economy rises. See *http://articles.economictimes.indiatimes.com/2014-09-02/news/53480019_1_indian-institute-isb-ivey-case-study*. Retrieved January 7, 2015.
25. Some international resources for case studies are: The Aspen Institute, Centre for Business Education; The Batten Institute, Darden Graduate School of Business, University of Virginia; The Case Centre (earlier called European Case Clearing House); Copenhagen Business School; Harvard Business School; MIT Sloan School of Management; Richard Ivey School of Business, University of Western Ontario; Stanford Graduate School of Business; and Thompson Centre for Business Case Studies, HKUST Business School, Hong Kong.

SYNOPSES OF CASE STUDIES

Case Study 1: Indian Cosmetics and Toiletries Industry Profile

This is a comprehensive industry profile of the cosmetics and toiletries industry in India *circa* 2015. It provides an account of the history and evolution of cosmetics and toiletries industry in the world, the current status of the industry in India in terms of its market size and potential, and the industry structure and drivers in Indian context. There is ample information about the different functional areas related to manufacturing, research and development, sales, distribution and marketing to enable a comprehensive analysis. The information related to competition and leading industry players in India is good material for performing an industry and competitor analysis. Reference is also made to the environmental and regulatory issues ending with the challenges and prospects to make a well-rounded analysis of this interesting industry in India.

Case Study 2: Harvest Gold – Delhi's No. 1 Bread

This is the case of a young, dynamic and competitive organisation in the highly competitive market of making and selling a consumable breakfast items in a limited region of India. It could be used by the management students to discuss a case of entrepreneurial organisation as well as an organisation focused on selling and marketing. Harvest Gold was known in Delhi as well as in NCRfor its smart marketing and quality control, its responsiveness to changing market and high class machinery and its straight competition with Britannia, Modern, and Perfect Bread in Delhi together with some local players. Having its own distribution was a real value addition and its success wholly depended on it. In this way the company was accountable to its customers in addition to keeping strict control on the channel members. The customer base was also wide and carried names like Reliance, IIT Delhi, and Private Hospitals, etc. The company was quite sure of making the product available in the morning on the breakfast tables of its customers. The future task ahead however was to develop a business model for national presence (market expansion) and it could involve franchising and contract manufacturing and stringent cost-cutting measures without diluting the quality and compromising on standards. The companies which had greater geographical presence or were multinationals could achieve better price by buying bigger volumes instead of buying for individual units. Central buying policies were recommended for such units. Bulk buying resulted in annual contracts for a period of twelve months with prices being finalized for the entire period. The case brings out the various complex interrelated factors that go into making a consumer company fight out in the market for valuable market share and sustain its competitiveness.

Case Study 3: Banking in Paradise: Strategy Case of the Jammu & Kashmir Bank

This strategy case of Jammu and Kashmir Bank (J&K Bank) presents the transformation of a commercial bank in the private sector that operates in special circumstances very different from other typical banks in the Indian banking industry. A bank with majority stake of the state government of Jammu and Kashmir yet labelled as a private sector bank, J&K Bank has certain special privileges: it is the conduit for the funds disbursed by the central and state governments and collect taxes. It has a near geographical monopoly in the state of Jammu and Kashmir and has extended itself to other parts of the country. Traditionally, it has collected low-cost deposits in the State and loaned them in other parts of the country at higher interest rates. Since the last few years the bank has been undergoing a strategic transformation. This case refers to several aspects of the special circumstances of the bank as well as the myriad initiatives underway.

Case Study 4: On the Job: Strategy Case of Naukri.com

This is a strategy case of Naukri.com's company Info Edge (India) Limited. It starts with some of the milestones in the entrepreneurial journey of Sanjeev Bikhchandani who started Naukri.com. It depicts the struggle as well as the exciting events that unfolded before the entrepreneurial set up started working. The case highlights the business model that is commonly used by Internet service companies. There is not much emphasis on the formal aspects of strategic intent as the company does not have an explicit vision or mission statement. There is ample material in the case that underscores the business environment factors that have either a positive or a negative impact on companies such as Info Edge. There is a lot to say about the successes of Naukri.com as a job portal but the other online classifieds service portals of the company Jeevansathi.com and 99acres.com have not been as successful. Competition is tough and there are formidable competitors; most of them backed by business houses much larger and stronger than Info Edge which is essentially a small company that converted into a public company. There is not much emphasis in the case on the financial achievements of the company but on the application of common Internet services business model. Innovations in such cases are highlighted in terms of say, the format of the website, the ease of accessing the portal, and so on. These are the things that the case focuses on to bring to the fore the real ingredients of strategic success in such ventures. In the latter part of the case, a section has been devoted to a general description and discussion of the online service companies followed by a future outlook for Info Edge. This is intended to relate the company's growth trajectory *circa* 2008 to the circumstances present in the online service industry. The case has important lessons to be drawn for other such ventures in the travel, hospitality, education, and other industries in which these business models are being tried. This case could also be used in the special case of strategic management for entrepreneurial organisations.

Case Study 5: A Strategy Case of the Rajasthan *ShikshaKarmi* Project

The Rajasthan *ShikshaKarmi* Project (SKP) is an unusual case for management students who usually read and discuss cases of corporate organisations. The SKP was a unique, innovative educational project started in 1987 and ended in 2005-2006 when it was merged into the national *SarvaShikshaAbhiyaan* (Education for All Movement) of the Government of India.

The case is a description of how the SKP adopted a focused approach to tackling daunting problems related to creating access to education for children in the remote parts of the State of Rajasthan. The case is descriptive with rich data about the project enabling the management students to observe how the different elements of strategic management such as strategic intent, strategy formulation, strategy implementation and strategy evaluation could be applied to a non-commercial context.

Case Study 6: Shija Hospitals and Research Centre: An Untiring Journey

This case is unique as it comes from the health care sector from the state of Manipur in North-east India. It describes the setting of Manipur and the state of its health sector and then proceeds to describe the private sector Shija Hospitals. This hospital is a privately-run service organisation that envisions becoming a part of the dream of making Manipur a major health care provider in South-east Asia. The description of the achievements of the hospital, particularly in areas of technology absorption, is a lesson in how a service organisation could set out to achieve its mission. There are important strategic questions facing the hospital top management in terms of its future path of growth and expansion that could provide material for interesting discussion of the possible alternatives.

Case Study 7: Providing Access to Water in Remote Areas: Trunz Water Systems in India

Trunz Water Systems AG (TWS) was founded in 2007 by a team of 12 experts from water treatment, metal construction and project management. TWS was the youngest business unit of the Trunz Group, a leading metal construction company from Switzerland with 40 years of history. TWS manufactured and distributed sustainable and cost efficient solutions for water purification, water desalination combined with solar power generation. The innovative company offered unique and sustainable solutions for decentralised potable water and electricity supply especially suited forrural areas. The product solutions of TWS were exceptionally energy efficient, independent, compact and environmentally friendly. In 2012, TWS was among the most competitive companies in this niche market and as of June 2012, over 550 TWS projects were operating in more than 30 countries all over the world. However, the market entry in India was not yet successfully completed and top management of TWS was thinking about appropriate business models that would help in successfully expanding in the Indian market.

Case Study 8: The Internationalisation Strategy of Wipro in Europe - 2

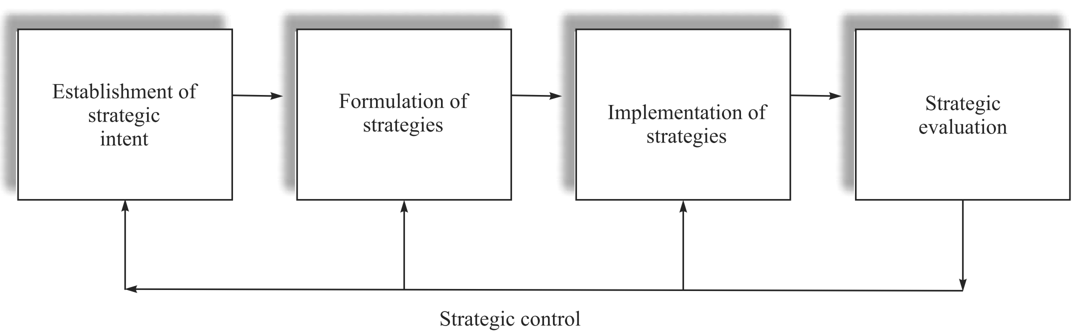
This is the case of Wipro that is a significant player in the strategic IT industry of India. It is a legendary company moving from the family business of oil and diversifying into the unrelated field of information technology and making a grand success of its strategic moves. The case touches upon the organic and inorganic strategic moves of the company and focuses on its activities in Europe. Thus, this case offers rich material for analysing the strategic actions of an Indian company in foreign markets. This case discusses the market-entry strategies, choice of ownership forms, and choice of locations of Wipro in Europe. Written by a professor based in Europe the case offers a unique perspective to the ways in which Wipro leverages on strategic alliances and partnerships to achieve growth and expansion into the highly competitive European markets.

PART

4 Strategic Evaluation

Chapter 14
Strategic Evaluation and Control

This part comprises one chapter on the last phase of strategic management, i.e. strategic evaluation and control. The formulation of strategy lays down the strategic intent and the strategies required in achieving it. In implementation, strategists activate the strategy, create the structure and systems, carry out behavioural implementation, and perform the functional and operational implementation. Strategy evaluation is necessary to test the effectiveness of strategies in achieving objectives. Through strategic and operational controls strategists set standards, measure performance, evaluate the strategy, and then initiate corrective action. The end result is adjustment of strategies, reformulation of objectives, or adaptation of plans.



14
CHAPTER

Strategic Evaluation and Control

Learning Objectives

After reading this chapter you should be able to:

LO 1 Describe the nature and importance of, and the barriers to, strategic evaluation and control and the role of participants in evaluation to make it effective
LO 2 Discuss the four types of strategic controls
LO 3 Explain the process of operational control
LO 4 Outline the various techniques for exercising strategic control and operational control
LO 5 Examine the role of information, control, and reward systems in evaluation

Chapter Outline

Preview Case

HOW APOLLO HOSPITALS TAKES CARE OF STRATEGIC EVALUATION AND CONTROL?*

Apollo Hospitals Enterprise Ltd. (AHEL) has the distinction of being the first and the largest corporate hospital network in India modelled on the Hospital Corporation of America—the world's largest private healthcare providers. Pioneered by Dr. Prathap C. Reddy, it was founded in 1979 and incorporated as a public limited company in 1983. Its' 2013–14 turnover is Rs. 4,384 crore and net profit is Rs. 317 crore. There are 50 hospitals, 1,632 pharmacies, over 100 primary care and diagnostic clinics, 115 telemedicine units across 10 countries within the vast Apollo hospitals network in 2015. It also offers services related to health insurance, global project consultancy, and academics and research institutions engaged in global clinical trials, epidemiological studies, stem cell and genetic research.

Apollo Hospitals Enterprise Ltd. is basically a family-owned and family-managed organisation with Dr. Reddy as the founder chairman and his four daughters who are holding the positions of executive vice-chairpersons, managing and joint managing directors (MDs). Dr. Reddy is a visionary medical doctor-entrepreneur and the driving force behind the Apollo hospitals network. Professionals manage the individual hospitals.

The corporate strategy is of expansion through organic as well as inorganic routes to growth through vertical integration, diversification and internationalisation through acquisition, joint ventures and strategic alliances. The business strategy is of differentiation based on high-quality healthcare at a premium price. Focus is created through niches such as medical tourism offering specialised healthcare facilities for foreigners and non-resident Indians (NRIs) particularly from the US and global nursing staffing by education and training of nurses. In terms of focus on medical specialities Apollo Hospitals Enterprise Ltd. concentrates on cardiology, oncology, neurology, critical care, orthopaedics, and transplants. Several business models are used simultaneously in line with whatever opportunity arises for establishing strategic alliances with prospective partners. For instance, expansion into Tier II and Tier III cities in India is envisaged through the REACH network of 12 hospitals expected to come up by 2018.

The strategic control appears to be centralised in the executive management team led by Dr. Reddy. From the tactical actions of AHEL reported frequently in the media it emerged that the growth trajectory charted in the initial years was based more on entrepreneurial feats and business opportunism rather than conscious planning. A plethora of business models used eclectically created a hazy picture of the AHEL's strategic intent. Lately things seemed to have improved with a clearer vision and mission and focus on defined range of activities.

Long-term sustainability measures with a time horizon of 15 years are set in terms of revenue growth, earnings before interest, tax, depreciation, and amortisation (EBITDA), profitability, gearing, shareholder returns, and hospital and pharmacy growth. Short-term operating parameters with a time horizon of 5 years are set in terms of volume growth (in-patient admissions), bed utilisation (operating beds and occupancy rates), patient turnaround and utilisation (average length of stay in days), realisation per bed (average revenue per occupied bed) and SAP, and mature stores EBITDA margins.

Apollo Hospitals Enterprise Ltd. has a risk management model consisting of risk identification, measurement and treatment, and reporting. A risk management committee headed by managing director oversees risk management and reports to the board of directors through the executive management team. Typical events monitored are: competitive intensity and new entrants to the market; pace of obsolescence of technology and treatment methods; inflationary pressures and other factors affecting demand for our products; increasing costs of materials, transport and storage; labour shortages and attrition of key staff including medical professionals; and increased compliance and regulatory challenges.

The performance evaluation model at AHEL, called the Apollo clinical excellence model, the ACE@25 is a balanced scorecard focusing on clinical excellence that includes evidence-based quality care, safe patient environment, and functional efficiency is implemented across the network. An oversight committee reviews the monthly summary and action plans are drawn for improving scores on low-scoring parameters. Quarterly, six monthly and annual trends are identified for ensuring consistency in performance. The key performance areas identified are clinical professionals, support personnel, equipment, patients, and environment of care. The rating of the quality and standards of hospitals within the Apollo network are done taking into consideration parameters such as quality indicators related to clinical processes, outcomes and infection control, analysis of sentinel events and root cause analysis, assessment of the quality of human resource (HR), collaborative governance through multidisciplinary committees, and effective utilisation of resources through implementation of clinical pathways. The metrics used in the area of revenue generation are: discharges in number, revenue per patient, average length of stay in days, out-patients in number, and revenue per bed day.

International and national accreditations by Joint Commission International of US and National Accreditation Board for Hospitals & Healthcare Providers make AHEL a globally and nationally benchmarked hospital organisation. Clinical governance is an integral part of a hospital network. At AHEL, clinical departments are constantly reviewed to identify variances that impact adversely on patient care and safety in the clinical delivery through patient feedback, clinical audit and review, and tracking of clinical outcomes as a part of the annual clinical performance review.

Apollo Hospitals Enterprise Ltd. partnered with Gallup Worldwide to measure customer and employee engagement through surveys and come up with suggestions for improvements. Customers, co-workers, and senior colleagues' feedback constitute an important component of performance appraisal, done every 6 months. Standard operating procedures for healthcare processes such as emergency, laboratory, routine admissions, and registrations are established. Reward system consisting of monetary incentives, recognition, staff support, and counselling are available.

Concern for continuous improvement is reflected in allocation of resources, setting up of systems, formal daily meetings with managers and open door policy of communication. Patient satisfaction surveys, well-designed brochures, an interactive website, grievance handling, and complaint boxes are used to gather feedback. Mortality and morbidity data analysis along with medical records, department records, and summary of results are maintained properly.

The Apollo network has certain advantages such as the first-mover advantage, large size, in-depth experience, brand equity, and widespread geographical presence. But recent years have seen tough competition emerging, mainly from Fortis Hospitals causing concern. As Dr. Prathap Reddy, the founder of AHEL commented in a 2011 magazine interview: 'Since 1984, we have been growing at the speed of a petrol-driven TVS 50 moped. Now, we want to grow at the speed of an aviation fuel-driven rocket.'[1]

The preview case of one of the finest corporate hospitals in India depicts at places in vivid details how a service organisation evaluates its strategic and operational performance while adopting growth strategies with quality-based differentiation. The case demonstrates how a service organisation puts into effect the process of strategic management particularly related to how it controls and evaluates its long-term and operational performance. Note the way Apollo Hospitals Enterprise Ltd. sets its' objectives, devises metrics for measuring performance, and benchmarks itself against global and national standards.

Strategic evaluation and control constitutes the final phase of strategic management and we take it up in this last chapter of the book. As we will see, 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 organisation is pursuing a given strategy. The idea of strategic control is of relatively recent origin as compared to operational control and so the techniques are in a developing state.

Operational control consists of setting standards, measuring performance, analysing variances, and taking corrective action. This is a process that you are already familiar with. Several techniques are available to exercise strategic control and operational control and you will have an opportunity to review the major techniques in this chapter.

14.1 AN OVERVIEW OF STRATEGIC EVALUATION AND CONTROL **LO 1**

This section aims at laying down the framework of the topic of strategic evaluation and control. The sections that follow will elaborate and discuss further the issues that are highlighted here. We start with a description of the nature of evaluation as applied in strategic evaluation and point out the various participants involved in the evaluation process. The section concludes with an explanation of the different kinds of barriers faced in strategic evaluation and how they could be avoided.

Nature of Strategic Evaluation and Control

The purpose of strategic evaluation is to evaluate the effectiveness of strategy in achieving organisational objectives. Thus, strategic evaluation and control could be defined as the process of determining the effectiveness of a given strategy in achieving the organisational objectives and taking corrective action wherever required.

From this definition, we could infer that the nature of strategic evaluation and control process is to test the effectiveness of strategy as well as to take corrective action to keep it continually effective. During the two preceding phases of 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 is guiding 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 these:

(a) 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?
(b) How is the organisation performing? Are the time schedules being adhered to? Are the resources being utilised properly? What needs to be done to ensure that resources are utilised properly and objectives are met?

The first set of questions relates to the more generalised and overarching issues of evaluation and are dealt with by the use of strategic control. The second set of questions relates to issues that concern the performance of tasks and are considered in operational control. We will shortly discuss these two types of evaluation systems. But first we need to be convinced of the importance of evaluation.

Importance of Strategic Evaluation

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 implementation of strategy starts with the identification of key managerial tasks which form the basis for the creation of organisational structure and design of systems. These are the issues that were discussed in Section 11.1. Here, it should be reiterated that the segregation of key managerial tasks leads to a situation where individual managers are required to perform a small portion of the overall tasks required to implement a strategy. The fact that individually a manager performs a set of functions which are interrelated to the other tasks—that managers elsewhere in the organisation are doing —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 strategic business units (SBUs) through 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.

Besides the basic reason of coordinating tasks there could be several other motives for strategic evaluation as described next.

Check on the validity of strategic choice: Strategic evaluation helps to keep a check on the validity of 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.

Congruence between decisions and intended 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 administrative system which leaves some amount of discretion in the hands of managers. In the absence of such evaluation, managers would not explicitly know how to exercise such as discretion.

Need for feedback, appraisal and reward: There is a need within an organisation to receive feedback on the current performance so that an appraisal can be done and good performance be rewarded. This is essential for the motivation of employees.

Successful culmination of the strategic management process: Strategic evaluation, through its process of control, feedback, rewards, and review helps in a successful culmination of the strategic management process.

Creating inputs for new strategic planning: Lastly, the process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful for new strategic planning.

In addition to the obvious reasons, described previously, there are certain other, and not-so-obvious, reasons why managers use strategic evaluation and control. These are: using control systems to overcome resistance to change, communicating new strategic agendas, ensuring continuing attention to new strategic initiatives, formalising beliefs, setting boundaries on acceptable strategic behaviour, and motivating discussion, and debate about strategic uncertainties.[2]

Participants in Strategic Evaluation

It is important to know who the participants are and what role they play in strategic evaluation and control. This will answer the question: who evaluates the strategy and how do they do it? Going beyond the role of evaluators, we are also interested in knowing who are ones appraised and how do they help in strategic evaluation.

Theoretically all internal and external stakeholders are participants in strategic evaluation and control but the major ones have a more direct interest and stake. We describe next the role of major participants in strategic evaluation and control.

Every organisation is ultimately responsible to its *shareholders*: owners, lenders and the public in the case of private companies, and the government in the public sector companies. The role of shareholders, in practice, however, is limited. This is especially true of the general public where the individual holding is too small to be of any effective value in strategic evaluation. Lenders such as financial institutions and banks which have equity stake are typically concerned about the security and returns on their shareholding rather than long-term assessment of strategic success. The government, through its different agencies, does play a significant role in strategic evaluation and control of public sector companies. In the next section, we will present an exhibit showing how performance evaluation is done in public enterprises.

The *Board of Directors* enact a formal role of reviewing and screening executive decisions in the light of their environmental, business, and organisational implications.[3] In this way, the Board is required to perform the functions of strategic evaluation in more generalised terms. But there is a lot of variation among Indian companies in the way through which the Board may perform its control functions. In some companies, the Board may have the real authority to oversee strategic evaluation while in others, its authority may be usurped by others like the chief executive or a higher *de facto* authority such as the family council, in the case of family-owned companies, the headquarters in the case of multinational company (MNC) subsidiaries, or the controlling ministry in the case of public sector companies. For example, Murugappa Corporate Board at the Murugappa group of companies assumed responsibilities of governance, strategic advice, and mentoring in 1999 when realisation dawned that it was no longer possible for family members to retain operational control of the group companies.[4]

Chief executives are ultimately responsible for all the administrative aspects of strategic evaluation and control. Ideally, a chief executive should not sit in judgement over the performance of the organisation under his or her control. Rather, the chief executive should be evaluated on the basis of organisation's performance and the long-term value created. This leads to the question of who should evaluate the chief executive. Normally, the evaluation of a person should be done by an individual or a group to whom he reports. In most cases the chief executive officer (CEO) would be evaluated by the board of directors as it is also responsible for the selection, compensation, and termination of the CEO. This is the reason why it is so important to have an independent board. In cases where the chief executive is accountable to no one in particular (as this is possible in the case of an entrepreneurial organisation), it is difficult to allocate the responsibility apart from relying on self-evaluation. But in other cases, the ownership pattern can determine who should evaluate the chief executive. Thus, the family council in family-owned companies and majority shareholders in other cases could evaluate a chief executive's performance.[5] It is also interesting to observe how outsiders view CEO performance. Frost & Sullivan CEO of the Year Award used to be given each year to the CEO who had demonstrated leadership excellence within his/her industry. Parameters such as gains in market share, decisions that improved earnings and were responsible for growth the company as well as leadership that affected observable changes in the industry were the common CEO performance measurement criteria Frost & Sullivan utilised in the selection process.[6]

The *SBU or profit centre heads* may be involved in performance evaluation at their levels and may facilitate evaluation by corporate-level executives.

Financial controllers, company secretaries, and external and internal auditors form the group of persons who are primarily responsible for operational control based on financial analysis, budgeting, and reporting.

Audit and executive committees set up by the Board or the chief executive may be charged with the responsibility of continuous screening of performance. Enhanced measures under the Clause 49 of the listing agreement of the Securities and Exchange Board of India (SEBI) for publicly-held companies in India for effective corporate governance aid in greater transparency in company operations enabling better strategic and operational controls.[7]

The *corporate planning staff or department* may also be involved in a supporting role for strategic evaluation.

Middle-level managers may participate in strategic evaluation and control as providers of information and feedback, as well as recipients of directions from above to take corrective actions.

In the manner described previously, there are several participants in the process of strategic evaluation and control and each of them play a different role. Next, we learn about the major barriers in the evaluation process.

Barriers to Evaluation

Any evaluation is a sensitive exercise. It has to be handled with due care and caution to serve a useful purpose. We could point out five major types of barriers in evaluation and also suggest the means to deal with them next:

Limits of controls: By its very nature, any control mechanism presents the dilemma of too much versus too less 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 create difficulties in coordination, encourage indiscriminate use of managerial discretion, and make the strategic evaluation process ineffective and redundant. Experience is a great teacher to help learn how to create a balance between too much and too less control.

Difficulties in measurement: The process of evaluation is fraught with dangers of difficulties in measurement. These mainly relate to the reliability and validity of 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. The solutions lie in using reliable and validated measurement systems and standardised procedures for measurement, quantification of objectives as far as possible, and enhance the quality of information system. Use of information technology (IT) for performance management helps to minimise the problem of untimely information.

Resistance to evaluation: The evaluation process involves controlling the behaviour of individuals and, like any similar organisational mechanism, is likely to be resisted by managers. Such resistance can be reduced by open communication with the participants in the evaluation process. A related issue is of being proven wrong or losing face. Top executives, particularly those who have formulated the strategy, sometimes fail to notice the negative signals that the control system provides. This might not be deliberate but happen owing to the human tendency to underrate negative signals and highlight positive ones regarding an issue one supports. Objectivity is an effective means to avoid such a tendency to occur.

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 are ignored. This is so since immediate assessment seems to be the easy way out and taking into account the long-term implications may be seen as too tedious. Obviously, a change of emphasis on achieving long-term results rather than short-term gains can help to correct this bias.

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 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 achievement of objectives may be rewarded if assessed on the basis of efficiency alone. The solution lies in creating a sharp focus on effectiveness as opposed to mere efficiency.

Individually, the barriers to evaluation can be dealt with in many ways. Besides, dealing with each barrier there is also a need to have an overall approach relevant to strategic evaluation. In this context, it is apt to quote Andrews: 'the true function of measurement (or, we could say, evaluation) is to increase perceptions of the problems limiting achievement'.[8] This is indeed a profound statement. In Andrew's opinion, it is the attitude towards evaluation that is more important than the process of evaluation itself. For instance, bureaucratic control often ends controlling just for the sake of control and not for the real purpose of finding out what is obstructing effective performance. The real worth of evaluation lies in its ability to throw up problems that are constraining achievement and then taking concrete action so that performance can be made effective. Next, we see how evaluation can be made effective.

Requirements for Effective Evaluation

When strategy drives the control system, evaluation is likely to more effective. For instance, an organisation implementing cost leadership strategy needs to emphasise tight cost controls, have a system whereby frequent and comprehensive reports to monitor costs are produced, and apply incentives based on explicit financial targets. On the other hand, the implementation of differentiation business strategy should ideally emphasise those activities that help in creating features that help the organisation stand out in the marketplace. For instance, evaluation should be focused on quality control if quality is the differentiating feature. Non-financial incentives can more effectively evaluate performance that is aimed at creating intangibles like creativity and innovation.

As we observe here, the basic issue in all evaluation needs to be that control should be dictated by strategy. There needs to be vertical fit between the strategy requirements and the evaluation and control exercised over performance. The following guidelines are suggested in order to make controls effective.[9]

- *Control should involve only the minimum amount of information* as too much information tends to clutter up the control system and creates confusion. There should be balanced emphasis on the level of complexity of the process of strategic evaluation itself. Too complex a system of evaluation may make it difficult to implement while a simplistic system may be inadequate.
- *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. Timeliness is important in the sense that evaluation must be done at the time when it is required. Performing evaluation too early or too late may be mistimed.
- *Long-term and short-term controls should be used* so that a balanced approach to evaluation can be adopted. Strategies by their very nature have a long-term effect. Evaluating short-term results may not truly reflect the actual performance of an organisation.
- *Controls should aim at pinpointing exceptions* as nit picking 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.
- *Reward of meeting or exceeding standards should be emphasised* so that managers are motivated to perform. Excessive emphasis on penalties tends to pressurise the managers to accentuate efficiency rather than effectiveness.

The next two sections describe the evaluation systems that could be used for an effective measurement of strategic and operational performance.

14.2 STRATEGIC CONTROL

LO 2

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 that are dynamic and eventful. There is a considerable gap between the time a strategy is formulated and 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 strategy do 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 that evaluate only after the implementation is completed. You could think of strategic control as analogous to the continuous evaluation system used in your management institute and distinguish it from the end-of-the term examination system used in traditional universities.

The four basic types of strategic controls are[10]:

1. Premise control
2. Implementation control
3. Strategic surveillance
4. Special alert control

The following sub-sections address each of these four strategic controls.

Premise Control

Every strategy is based on certain assumptions about environmental and organisational factors. Some of these factors are highly significant and any change in them can affect the strategy to a large extent. Premise control is necessary to identify the key assumptions and keep track of any change in them so as to assess their impact on strategy and its implementation. For instance, a company may base its strategy on important assumptions related to environmental factors (e.g. favourable government policies), industrial factors (e.g. changing nature of competition), and organisational factors (e.g. expected breakthrough in research and development (R&D)). Premise control serves the purpose of continually testing the assumptions to find out whether they are still valid or not. This enables the strategists to take corrective action at the right time rather than continuing with a strategy based on erroneous assumptions. The responsibility for premise control can be assigned to the corporate planning staff that can identify key assumptions and keep a regular check on their validity.

Implementation Control

The implementation of a strategy results in a series of plans, programmes, and projects. Resource allocation is done for implementing these. Implementation control is aimed at evaluating whether the plans, programmes, and projects are actually guiding the organisation towards its predetermined objectives or not. If, at any time, it is felt that the commitment of resources to a plan, programme, or project would not benefit the organisation as envisaged, they have to be revised. In this manner, implementation control may lead to strategic rethinking.

Implementation control may be put into practice through identification and monitoring of strategic thrusts such as an assessment of the marketing success of a new product after pre-testing or checking the feasibility of a diversification programme, after 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.

Another method of implementation control is milestone reviews, through which critical points in strategy implementation are identified in terms of events, substantial resources allocation, or significant end-time. This is similar to identification—albeit at a smaller scale—of events and activities in Programme Evaluation Review Technique (PERT)/Critical Path Method (CPM) networks. After identification of milestones, a comprehensive review of implementation is made to reassess its continued relevance to achievement of objectives.

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'.[11] 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 course of 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.'[12] Organisational learning and knowledge management systems can help capture much of the information that is otherwise lost in organisation. This information can be used for strategic surveillance.

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, a breach in information security, 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.[13] The first step of signal detection can be performed by the special alert control systems.

From the description of the four strategic controls, it might seem that strategic evaluation is a complex process and requires the use of sophisticated and systematic techniques. While this may be true for large and complex organisations facing a turbulent environment, it is not of great concern for smaller and structurally simpler organisations that face a relatively stable environment. Many of the tasks required for strategic control may be performed informally in a simple way. For instance, in an entrepreneurial organisation, the owner-manager may perform strategic control through a general awareness of environmental and industry-related factors and initiate changes whenever required. This may be done through a regular scanning of business newspapers, magazines, and trade journals; through attendance at seminars and conferences; social networking and general observations. In short, whatever sources are used for environmental appraisal may also be useful for strategic control. MNCs, on the other hand, would have to plan for elaborate systems in order to perform strategic control over their geographically-dispersed and intricately-connected subsidiaries.

The basic theme of strategic control is to continually assess the changing environment to uncover events that may significantly affect the course of an organisation's strategy. As compared to strategic control, operational control has a different purpose. The next section deals with operational control.

14.3 OPERATIONAL CONTROL

LO 3

Exhibit 14.1 indicates the difference between strategic and operational control. It can be seen that operational control is aimed at allocation and use of organisational resources through evaluation of the performance of organisational units such as divisions or SBUs 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 so extensively used in organisations. In this section we see how the process of evaluation is applied for exercising operational control.

Exhibit 14.1 How do Strategic Control and Operational Control Differ?

Attribute	*Strategic control*	*Operational control*
1. Basic question	'Are we moving in the right direction'?	'How are we performing'?
2. Aim	Proactive, continuous questioning of the basic direction of strategy	Allocation and use of organisational resources
3. Main concern	'Steering' the organisation's future direction	Action control
4. Focus	External environment	Internal organisation
5. Time horizon	Long-term	Short-term
6. Exercise of control	Exclusively by top management, may be through lower-level support	Mainly by executive or middle-level management on the direction of the top management
7. Main techniques	Environmental scanning, information gathering, questioning and review	Budgets, schedules, and MBO

Source: Based on J.A. Pearce III and R.B. Robinson, Jr., *Strategic Management: Strategy Formulation and Implementation*, 3rd ed. (Homewood, Ill.: Richard D. Irwin, 1988): 404–19.

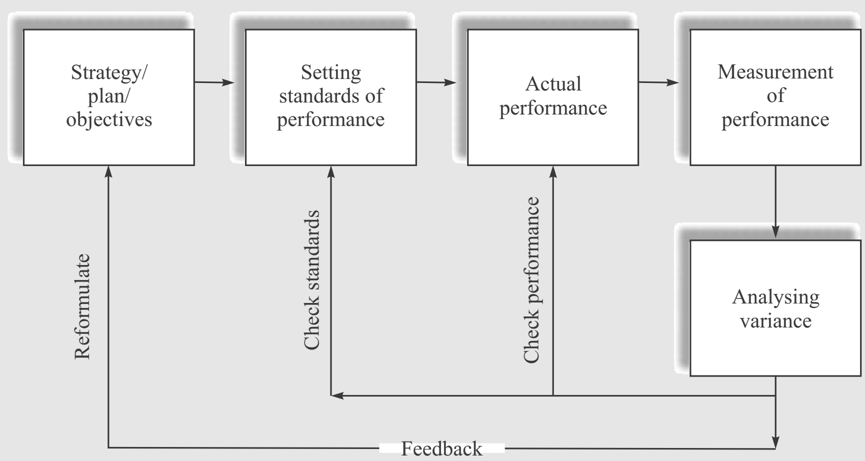
Process of Evaluation

The process of evaluation basically deals with four steps:

1. Setting standards of performance
2. Measurement of performance
3. Analysing variances
4. Taking corrective action

These four elements of the evaluation process, and how they relate to each other, are depicted in Exhibit 14.2. The strategies, plans, and objectives result in a set of performance standards which form the basis for evaluation through measurement of performance. The comparison of actual and standard performance leads to the analysis of variances. Feedback from this analysis results in either a check on performance, revaluation of standards, or reformulation of strategy, plans or objectives. Due to the inherent nature of operational control, corrective action is aimed mainly at performance and adjustment of standards rather than the reformulation of strategy. The reformulation task is performed usually on the basis of strategic control, especially implementation control.

Exhibit 14.2 The Evaluation Process for Operational Control



Setting Standard

Strategists encounter the following three questions while dealing with standard setting:

(a) What standards to set?
(b) How to set these standards? and
(c) In what terms do we express these standards?

A three-pronged basic approach to standard-setting could be used to settle these issues.

1. The key managerial tasks, derived from the strategic requirements, can be analysed for finding out the key areas of performance. Standards can then be set in each of these key result areas.
2. The special requirements for the performance of the key tasks can help to determine the type of standards to set.
3. Performance indicators that best express the special requirements could then be decided upon to be used for evaluation.

Applying this approach to the case of a company which adopts a market development strategy, it can be said that one of the key managerial tasks is to expand market presence and enhance market visibility. The special requirement is to raise the overall market share and two indicators that could satisfy the requirements could be: increase in sales revenue and efficiency of sales force. This company can use these two indicators to measure its operational performance in marketing.

Another example could be of an organisation using a cost leadership business strategy. The key managerial task in this case is cost reduction. The special requirement is to monitor and reduce costs. The performance indicator that could help this organisation could be reduction in production cost and reduction in inventory cost over a given period of time. Exhibit 14.3 provides some illustrative performance indicators in five functional areas across the three corporate-level strategies of stability, expansion, and retrenchment.

Exhibit 14.3 Some Illustrative Performance Indicators in Functional Areas Across Different Corporate-Level Strategies

	Corporate-level strategies		
Functional area	*Stability*	*Expansion*	*Retrenchment*
Focus of evaluation	Efficiency-oriented	Growth-oriented	Cost reduction-oriented
Financial area	Profitability and activity ratios; dividend and earnings per share	Leverage ratios; credit ratings; break-even point	Liquidity and activity ratios
Marketing area	Sales revenues and quotas; sales force productivity; accounts receivable divided by sales; number of customer complaints	Sales growth (current sales to base year's sale); new accounts opened per year; new product's sales divided by total sales	Marketing costs divided by sales; marketing costs divided by orders; sales expenses divided by total number of sales calls
Operations area	Productivity (e.g. man hours per production unit); capacity utilisation; investment in R & D as compared to revenue; average lead time for purchase	Growth in assets; production contribution divided by production assets	Production costs divided by sales; inventory as percentage of sales or production; scrap, reject, or waste percentage
Personnel area	Number of man days lost divided by number of man days worked; productivity rate of company versus industry average; employees' suggestions received, percentage accepted, and implemented	Training costs divided by average number of employees; recruitment costs divided by average number of recruits; overtime costs versus total labour costs; bonus payments versus total labour costs	Personnel costs divided by average number of employees; separation costs versus total costs; retraining costs divided by average number of employees
Information management area	Utilisation of systems resources per unit time; data error frequency	Growth in hardware/software assets; index of end-user satisfaction; total demand for application programmes per unit time	IT costs per employee; maintenance costs divided by total IT investment

The four areas of operational effectiveness we identified in Section 13.8 could also be used as areas in which standards are set. For this to take place, one has to be clear as to how productivity, processes, people, and pace contribute to the strategy being implemented. Performance indicators—in order to capture the reality of action—have to be set on the basis of quantitative (or objective) as well as qualitative (or subjective) criteria. Operational control can be effectively exercised through a combination of quantitative and qualitative criteria.

Quantitative criteria: Performance evaluation on the basis of quantitative criteria can be done in two ways: an organisation can assess how it has performed as compared to its past achievements and it can also compare its performance with the industry average or that of major competitors. There are several criteria—mainly financial in nature—that can be used. Companies can evaluate their performance on an annual basis for the last 10 years or so on the basis of criteria like net profit, stock price, dividend rates, earnings per share, return on capital, return on equity, market share, growth in sales, days lost per employee as a result of strikes, production costs and efficiency, distribution costs and efficiency, and employee turnover, absenteeism, and satisfaction indexes.[14] Companies can also evaluate performance on the basis of industry averages provided in industry reports published in leading business newspapers such as and magazines. Exhibit 14.4 provides the model that two business magazines in India use in ranking the top companies. The method indicated in the exhibit could well be used by companies to evaluate performance on quantitative criteria on individual basis as well as on an industry level.

Exhibit 14.4 Parameters for Ranking the Top Companies in India

Ranking is big business globally. Most big names in the global publishing industry come out with annual ranking of companies, universities, business schools, and so on. Several business magazines and websites and several consultancy organisations rank top companies in India too. The bases used for ranking vary depending on the nature of business magazine or website. When done on the basis of objective data such as published figures of revenue, the rankings present a true picture of the standing of companies while survey-based rankings are perceptual in nature and present a subjective view of the participants of the survey.

Fortune ranks global companies on the basis of total annual revenue. Indian Oil Corporation (IOC), Reliance Industries Ltd. (RIL), and Bharat Petroleum Corporation Ltd. (BPCL) are the top three ranks in 2014 among the eight companies from India. Forbes' annual list of the world's 2000 largest and most powerful public companies had 54 Indian companies in its 2014 listing among them RIL, State Bank of India (SBI), and Oil and Natural Gas Corporation (ONGC) being the top three. The magazine does ranking on the basis of four metrics of sales, profit, assets, and market value.

Economic Times-500 ranking is based on total annual income or revenue. The 2014 ranking places IOC, RIL, and BPCL at the first three ranks. *Business Today* ranks most valuable private companies in India to determine the list of BT 500 on the basis of market capitalisation. Tata Consultancy Services (TCS), RIL, and Indian Tobacco Company (ITC) were ranked the top three in 2013.

Business World ranks the fastest growing companies in India on the basis of the average of the last 4 year's year-on-year growth in net sales. The magazine creates categories such as super heavyweight companies of net sales over Rs. 50,000 crore, heavyweight from Rs. 10,000 through 49,999 crore, middleweight from Rs. 5,000 through 9,999 crore, welterweight from Rs. 1,000 to 4,999 crore, and the featherweight from Rs. 100 crore to 999 crore. It then ranks the fastest growing companies in each of these categories.

Besides the objective ranking based on published data, the media also ranks companies on the basis of subjective assessment such as being perceived as the best employer or as the most marketing savvy company. Such rankings present an interesting picture of a sector or industry such as airlines or hotels where the companies in those industries may compare themselves to their peers. On the part of companies, if they appear in the rankings, it gives them a talking point and they can make claims of superior performance on the basis of their high rankings. Critics allege that some media organisations are in the 'business of ranking businesses' and their rankings do not carry much significance or could even be challenged on the basis of statistical analyses. There are also some serious allegations that rankings are based on the whether or not companies buy advertisement space on the magazines or websites that publish those rankings.

For the purpose of strategic evaluation and control, rankings offer some insights into the parameters the magazines use to rank companies that the company themselves could use to benchmark their performance against peers in the country, sector, or industry.

Source: 'Global 500 2014' at *http://fortune.com/global500/*; 'India Home to 54 of World's Largest, Most Powerful Public Companies: Forbes Magazine,' *The Times of India* (8 May, 2014) at *http://timesofindia.indiatimes.com/business/india-business/India-home-to-54-of-worlds-largest-most-powerful-public-companies-Forbes-magazine/articleshow/34824059.cms*; 'ET 500: Methodology of Arriving at the Ranking,' *The Economic Times* (16 September, 2014) at *http://economictimes.indiatimes.com/markets/stocks/news/et-500-methodology-of-arriving-at-the-ranking/articleshow/42537441.cms*; 'BT 500: India's Most Valuable Companies,' at *http://businesstoday.intoday.in/bt500/summary-ranking.jsp*; 'Fastest Growing Companies,' *Business World* (30 July, 2014) at*http://www.businessworld.in/news/business/corporate/rankings/1456839/page-1.html#sthash.rq8ysnQv.dpuf*; INSEAD provides a number of company ranking listings around the world at *http://www.insead.edu/library/rankings/companies.cfm*; For criticism of rankings see, for instance, the allegation that the website Yelp manipulates rankings at *http://www.kcrw.com/news-culture/shows/press-play-with-madeleine-brand/remembering-joan-rivers-and-breaking-up-with-football*; All websites retrieved December 27, 2014.

Qualitative criteria: The quantitative criteria, with all their characteristic objectivity and sophistication, cannot be sufficient for an overall assessment of performance. There has to be a set of qualitative criteria for a subjective assessment of factors such as capabilities, core competencies, risk-bearing capacity, business agility, strategic clarity, flexibility, and workability. Qualitative criteria play a major role in strategic control for evaluating strategy before implementation but can be used in operational control too. Glueck and Jauch suggest three sets of qualitative criteria: consistency, appropriateness, and workability.[15] Consistency tests strategy with respect to objectives, environmental assumptions, and internal conditions. Appropriateness assesses the strategy from the viewpoint of resources capabilities, risk preference, and time horizon. Lastly, workability checks strategy with regard to its feasibility and stimulation.

Having set the standards of performance, strategists proceed to measure performance as the next step towards evaluation.

Measuring Performance

The evaluation process operates at the performance level as action takes place. Exhibit 14.2 shows how this happens. Note that actual performance is depicted within a dotted boundary as it not a part of the evaluation process. Standards of performance act as the benchmark against which the actual performance is to be compared. It is important, however, to understand how the measurement of performance can take place. The information system is the key element in any measurement exercise. Operationally, measuring is done through accounting, reporting, and communication systems. A variety of evaluation techniques (described in the next section) are used for measurement. Apart from the method of measuring performance, the other important aspects of measurement relate to the *difficulties*, *timing*, and *periodicity in measuring*.

- *Difficulties in measurement:* If standards are appropriately set, and if means are available for measuring performance, evaluation is a fairly easy task. But there are several activities for which it is difficult to set standards and measure performance. For instance, it is relatively easier to measure the contribution of workers as compared to that of managers. Likewise, it is not so difficult to measure individual effort as it is to assess departmental performance. The solution lies in developing verifiable objectives, stated in quantitative and qualitative terms, against which performance can be measured.
- *Timing of measurement:* Timing relates to the point of time at which evaluation has to take place. In general, it could be said that delay in measurement can defeat the purpose of evaluation itself. On the other hand, measuring before timing cannot serve the purpose either. It is better to measure at critical

points in a task schedule. Generally, the critical points would be at the end of a definable activity or the conclusion of the task. For instance, in a project implementation schedule, there could be several critical points at which measurement can take place. This is called milestone review done at the end of each phase of a project.

- *Periodicity in measurement:* A related issue to timing is periodicity, which deals with the issue of 'how often to measure'. Normally, financial statements like budgets, balance sheets, and profit and loss accounts are prepared every year so the periodicity is on an annual basis. But there might be several functions like production and marketing where measurement will have to be done for shorter duration, possibly on a monthly or a weekly basis.

There are many family-owned and other types of private sector companies which have separate management boards or executive committees to review the performance of departments or profit centres. The difficulty arises when there is no clear cut authority for performance evaluation. Usually, the real authority for evaluation may rest in external groups. Thus, family business have their family councils, multinational subsidiaries have review committees constituted by parent company officials, while professionally managed companies may evolve varying mechanisms for the evaluation purpose. For example, sometime in 1998, the healthcare and personal care company Dabur handed over the management of its flagship company to an outsider CEO. This followed the realisation that it was no longer possible to continue being a family-managed organisation if it was to adopt growth strategies successfully. As a consequence, the family members assumed an active governance role and created a family council that provided strategic direction to the company and acted as a communication linkage between the family and managers.[16]

Next, we take up the step of analysis of variances that result from the measurement of performance.

Analysing Variances

The measurement of actual performance and comparing it with the standard or budgeted performance leads to an analysis of variances. Broadly, the following three situations may arise:

1. The actual performance matches the budgeted performance.
2. The actual performance is better, i.e. deviates positively over the budgeted performance.
3. The actual performance is below, i.e. deviates negatively from the budgeted performance.

The first situation is ideal but not realistic. In practice, the actual performance rarely matches the budgeted performance. Here, the strategists would have to specify a range of tolerance limits between which the results may be accepted satisfactorily. So, actual performance which deviates from the budgeted performance within the tolerance limits established can be acceptable and the variance is considered as not significant.

The second situation is welcome as it an indication of superior performance. But exceeding the target continually should be considered as unusual and a check needs to be done for testing the validity of standards and the efficacy of the measurement system. Exhibit 14.2 takes care of this situation by having a feedback from the variance analysis to standards.

The third type of situation is alarming as it indicates a shortfall in achievement. The strategists need to pinpoint the areas where performance is below standard and go into the causes of deviation. Corrective action is taken on the basis of the analysis of the causes of deviation.

Evaluation by the top management can be facilitated if analysis of variance is presented in the form of a simple device that could be termed as the variance chart. The same principle is applied in making control charts for statistical quality control. Exhibit 14.5 shows a sample variance chart that illustrates the nature of deviations and the areas in which they occur.

Exhibit 14.5 Sample variance chart for performance evaluation

Performance indicator	*Standard*	*Actual*	*Deviation*
Financial area:			
- Profit over sales (%)	12	10	- 2
- Dividend (%)	10	10	0
Marketing area:			
- Sales revenue (Rs. in millions)	25	23	- 2
- Number of customers complaints ('00)	1.5	1.3	+ 0.2
Operations area:			
- Capacity utilisation (%)	85	90	+ 5
- Man hours per unit	4	3.5	+ 0.5
Personnel area:			
- Training costs over average number of employees ('000)	20	15	+ 5
- Employees' suggestions implemented over number received (%)	60	50	- 10
Information management area:			
- Utilisation of system resources (%)	90	70	- 20
- Maintenance costs as per cent of IT investments (%)	15	20	- 5

After noting the deviations, it is now time for finding the causes of deviations. The following questions can be helpful in determining the causes:[17]

a. Is the cause of deviations internal or external?
b. Is the cause random or was it expected?
c. Is the deviation temporary or permanent?
d. Are the strategies (and plans, objectives) still valid?
e. Does the organisation have the capacity to respond to the change needed?

Analysis of variances leads to a plan for corrective action that we discuss next.

Taking Corrective Action

Exhibit 14.2 suggests three courses for corrective action: *checking of performance*, *checking of standards*, and *reformulating strategies, plans, and objectives*.

Initiating corrective action is not an insignificant part of the evaluation process: it involves a variety of managerial functions which are performed during strategy implementation. For instance, *checking of performance* requires going into the details of organisational structure and systems, as well as behavioural implementation. Performance is affected adversely due to a number of factors such as distortions in resource allocation, inappropriateness of structure and systems, and wrong leadership and motivational styles. If the evaluation process shows that performance is consistently lower than expected, the strategists would have to undertake an in-depth analysis and diagnosis of the factors that might be responsible for bad performance. Taking corrective action for checking performance is, therefore, a significant part of the day-to-day activities of managers.

Checking of standards is less frequent than a performance check but it will have to be done as soon as it is felt that there is nothing significantly wrong with performance. Standards check may result in a lowering of standards if it is concluded that organisational capabilities do not match the performance requirements. It may also lead to an elevation of standards if conditions have improved for better performance to take place. For instance, better equipment, improved system, and upgraded skills are sure to make existing standards partly irrelevant. Productivity frontiers too keep moving farther and competitive pressures compel companies to continually strive to improve their operational effectiveness. In such a situation, standards check would become necessary.

A more radical and infrequent corrective action is to *reformulate strategies, plans, and objectives*. Strategic, rather than operational, control will lead to the conclusion that strategies call for reformulation, or plans need to be remodelled, or objectives have to be redefined. Reformulation of strategy will take us back to the process of strategic management where a fresh strategic choice has to be made. Remodelling of plans will entail a new resource allocation pattern and subsequent changes in strategy implementation. Redefinition of objectives, however, takes us full circle to the start of the strategic management process.

Further, in this chapter, we will discuss the techniques of strategic evaluation and control, and the role of organisational systems in evaluation.

14.4 TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL

LO 4

It is necessary for strategists to have an idea about the techniques of strategic evaluation and control in order to make a choice from among the many available and to use them. Several of the techniques of evaluation are traditional and have been in usage for long while there are some other techniques that are of recent origin. This section describes briefly the techniques for strategic control and operational control. First we take up the techniques for evaluation in strategic control and then for operational control.

Evaluation Techniques for Strategic Control

As we said earlier in this chapter, the essence of strategic control is to continually assess the changing environment to observe events that may significantly affect the course of an organisation's strategy. Techniques for strategic control could be classified into two groups on the basis of the type of environment faced by the organisations. The organisations that operate in a relatively stable environment may use strategic momentum control while those which face a relatively turbulent environment may find strategic leap control more appropriate.[18]

Strategic momentum control These types of evaluation techniques are aimed at assuring that the assumptions on the basis of which strategies were formulated are still valid and what needs to be done in order to allow the organisation to maintain its existing strategic momentum. For achieving these aims there are three techniques which could be used: *responsibility control centres*, *underlying success factors*, and *generic strategies*.[19]

1. *Responsibility control centres* form the core of management control systems and are of four types: revenue, expense, profit, and investment centres. Each of these centres is designed on the basis of the measurement of inputs and outputs.[20] The study and application of responsibility centres is done in the discipline of management control systems.
2. The *underlying success factors* enable organisations to focus on the critical success factors (see Section 2.6 for an explanation) to examine the factors that contribute to the success of strategies. By managing on the basis of the critical success factors, the strategists can continually evaluate the strategies to assess whether or not these are helping the organisation to achieve its objectives.
3. *Generic strategies* approach to strategic control is based on the assumption that the strategies adopted by firms similar to another firm are comparable. Based on such a comparison, a firm can study why and how other firms are implementing particular strategies and assess whether or not its own strategy is following a similar path. In this context, the concept of strategic group (see Section 9.2 for an explanation) is also relevant. A strategic group is a group of firms that adopt similar strategies with similar resources. Firms within a strategic group, often within the same industry—sometimes in other industries too— tend to adopt similar strategies.

Strategic leap control Organisations are required to make strategic leaps in order to make significant changes when the environment is relatively unstable. Strategic leap control can assist such organisations by helping to define the new strategic requirements and to cope with emerging environmental realities.[21] There are four techniques of evaluation used for exercising strategic leap control: *strategic issue management*, *strategic field analysis*, *systems modelling*, and *scenarios*:

1. *Strategic issue management* is aimed at identifying one or more strategic issues and assessing their impact on the organisation. A strategic issue is 'a forthcoming development, either inside or outside of the organisation, which is likely to have an important impact on the ability of the enterprise to meet its objectives'.[22] By managing on the basis of strategic issues, the strategists can avoid being overtaken by surprising environmental changes and design contingency plans to shift strategies whenever required.
2. *Strategic field analysis* is a way of examining the nature and extent of synergies that exist or are lacking between the components of an organisation.[23] Whenever synergies exist the strategists can assess the ability of the firm to reap the advantages. Alternatively, the strategists can evaluate the firm's ability to generate synergies where they do not exist.
3. *Systems' modelling* is based on computer-based models that simulate the essential features of the organisation and its environment. Through systems modelling, organisations may exercise pre-action control by assessing the impact of the environment on the organisation through the adoption of a particular strategy.
4. *Scenarios* are perceptions about the likely environment a firm would face in future. In Section 4.3, on environmental scanning, scenario-writing was discussed as a technique for analysing environment. Its' use could be extended to evaluation by enabling organisations to focus strategies on the basis of forthcoming developments in the environment.

For several of the techniques described previously for strategic control—except with the possible exception of responsibility centres and scenarios—not much evidence is available of their applications. The fact these techniques are proposed is an evidence of the expanding body of knowledge in strategic management available for application by organisations. As the use and application of the techniques of strategic control gains approval, it is quite likely that organisations would start using such techniques. Operational control, however, uses more familiar techniques which have traditionally been used by strategists. In the next part of this section, we look at techniques for operational control.

Evaluation Techniques for Operational Control

Operational control, as we said in the beginning of Section 14.3, is aimed at allocation and use of organisational resources. Evaluation techniques for operational control, therefore, are based on organisational appraisal rather than environmental monitoring as is the case with strategic control. But before you read further, it would be helpful if you review Section 5.4 where we described in detail the techniques used for organisational appraisal. These techniques are used for operational control as well. To help you recall let us reiterate the classification of evaluation techniques in three parts of *internal analysis*, *comparative analysis*, and *comprehensive analysis* and then point out the possible usage of each of them for the purpose of exercising operational control.

Internal analysis The internal analysis which consists of the VRIO framework, value chain analysis, quantitative (financial and non-financial) analysis, and qualitative analysis deals with the identification of the strengths and weaknesses of a firm in absolute terms.

1. *VRIO framework:* The basic idea behind the VRIO framework is that sustainable strategic advantage results through the use of capabilities that are valuable, rare, inimitable and organised for usage. The

performance evaluation for operational control can make use of this framework to focus on evaluating the capabilities so as to examine whether these are present. For example, in case the organisation is interested in creating differentiation based on superior R&D capability then it can evaluate whether its R&D capability is valuable, rare, inimitable, and organised for usage. If the R&D capability is assessed as being of high quality in terms of R&D equipment, is rare in terms of the availability of highly qualified researchers, the organisation has an inimitable skill in integrating the R&D resources, and the structure and systems of the organisation are well-suited to the development of R&D capability then the VRIO framework serves a useful purpose in operational control.

2. *Value chain analysis* focuses on a set of interrelated activities performed in a sequence for producing and marketing a product or service. The utility of value chain analysis for the purpose of operational evaluation lies in its ability to segregate the total task of a firm into identifiable activities which can then be evaluated for effectiveness.
3. *Quantitative analysis* takes up the financial parameters and the non-financial quantitative parameters such as physical units or time in order to assess performance. The obvious benefit of using quantitative factors—either financial or physical parameters—is the ease of evaluation and the verifiability of the assessment done. These are probably the most used methods for evaluation for operational control. Among the scores of financial techniques, described in all standard texts in the area of finance, are traditional techniques such as the ratio analysis or the techniques such as economic value-added (EVA) and its variations, and activity-based costing (ABC). These methods are proven so far as their efficacy for evaluating operational effectiveness is concerned. Apart from the financial quantitative techniques, there are several non-financial quantitative techniques such as computation of absenteeism, market ranking, rate of advertising recall, total cycle time of production, service call rate, or number of patents registered per period available for evaluation for operational control. Many more can be evolved by firms to suit their specific requirement.
4. *Qualitative analysis* supplements the quantitative analysis by including those aspects which are not feasible to measure on the basis of figures and numbers. The methods that could be used for qualitative analysis are based on intuition, judgement, and informed opinion. Techniques such as surveys and experimentation can be used for evaluation of performance for exercising operational control.

Comparative analysis Comparative analysis which consists of historical analysis, industry norms, and benchmarking compares performance of a firm with its own past performance or with other firms:

1. *Historical analysis* is a frequently used method for comparing performance of a firm over a given period of time. This method has the added benefit of enabling a firm to note how the performance has taken place over a period of time and to analyse the trend or pattern. Such an analysis can offer the firm better perception of its performance as compared to an absolute assessment.
2. *Industry norm* is a comparative method for analysing performance that brings the advantage of making a firm competitive in comparison to its rivals in the same industry. Being a comparative assessment, evaluation on the basis of industry norms enables a firm to bring its performance at least up to the level of other firms and then attempt to surpass it.
3. *Benchmarking* is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. The best practices are the benchmarks that could be adopted as the standards by the firm to exercise operational control. Through this method, performance can be evaluated continually till it reaches the best practice level. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers a tangible method to firms to evaluate performance.

Comprehensive analysis Comprehensive analysis which adopts a total approach rather than focussing on one area of activity or a function or department.

1. *Key factor rating* is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. This is quite a comprehensive method as it takes a holistic view of the performance areas in an organisation.
2. *Business intelligence systems* is one of the concepts used for discovering knowledge from various internal and external data repositories available to an organisation to support effective decision making. By itself, business intelligence systems are not meant for exercising operational control but they have the potential to act as valuable inputs of information that can be used for operational control. In fact, one of the primary applications of business intelligence systems is in the area of corporate performance management. This can be accomplished by accessing data warehouses, using data mining tools, and creating analytical reports that can help in performance evaluation.
3. *Balanced scorecard* method is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. The method is a balanced approach to performance measurement as there are a range of parameters taken into account for evaluation. The balanced scorecard, coupled with business intelligence systems offers a way to measure an organisation's performance against its strategic objectives while focusing on building capabilities to achieve these objectives. The balanced scorecard examines performance related to customers, internal processes, human resources and finance. It can be used for deciding the key drivers of performance and focusing attention on the goals and targets thus helping to create a balanced system of performance evaluation.

Besides the several techniques referred to previously, we will create two other categories to describe some other techniques used. These are not a part of the organisational appraisal. The first category is of special purpose techniques and the other is auditing.

Special purpose techniques As you will observe, the special-purpose techniques are used in particular situations by some organisations to assess performance and exercise operational control. These are the network techniques, management by objectives, the *parta* system, memorandum of understanding (MOU), and evaluation studies in non-governmental organisations (NGOs).

1. *Network techniques* such as PERT, CPM, and their variants, are extensively used for operational control of scheduling and resource allocation in projects. These are tried and tested techniques with proven effectiveness and have been in use since 1956 when they were first proposed. When network techniques are modified for use as a cost accounting system, they become highly effective operational controls for project costs and performance.[24]
2. *Management by Objectives* (MBO) is the system, proposed by Peter Drucker, based on regular evaluation of performance against objectives that are decided upon mutually by the superior and the subordinate. By the process of consultation, objective-setting leads to the establishment of a control system that operates on the basis of commitment and self-control. Thus, the scope of MBO to be used as an operational control is quite extensive. It is a classic technique being in existence since 1954 when it was first proposed.
3. The *parta* system is an indigenous system adopted usually by *Marwari* firms to keep track of daily cash generation. '*Parta* is the pre-determined budget of the net cash inflows from operations before tax and dividend'.[25] The *parta* is decided in advance between the family group and company head and actual performance is compared to this budgeted *parta* on a daily basis, thus making *parta* an effective operational control device.
4. *Memorandum of understanding* like MBO is a commitment to objectives between individuals and groups within an organisation, a MOU is 'an agreement between a public enterprise and the government, repre-

sented by the administrative ministry in which both parties clearly specify their commitments and responsibilities'.[26] Having done that, the enterprises are evaluated on the basis of the MOU. Though an MOU is usually thought of as a technique used solely in the context of public enterprise, its use can be extended to any situation where an external agency is required to evaluate a firm's performance. Thus, the MNC can set an MOU with its subsidiary and a family business council can use an MOU to evaluate its constituent companies. With greater professionalisation of private firms, especially in the family business sector, the use of MOUs can be helpful. MOUs can also be set up between government and NGOs, public and private sector organisations, and commercial organisations and social institutions. In fact, MOUs are becoming a common form of inter-organisational relationship among all types of partnering organisations. Since traditionally in India the usage of MOU is a popular method for the evaluation of performance in public enterprise, we will take this opportunity to provide an exhibit which describes the context in which MOUs are used. Exhibit 14.6 describes how operational control is done in central public enterprises in India.

5. *Result-framework document* (RFD) is an arrangement specially designed for government ministries and departments of ministries in the Indian government. Initiated in 2011, it has 'performance monitoring and evaluation system' aimed at goal setting and performance evaluation as a part of the MOU. The RFC provides a summary of the important results that a ministry or department expects to achieve in a financial year. It has an agreed upon set of objectives, policies, programmes and projects including the success indicators and targets to measure progress in implementation. The system of RFC is managed by the Cabinet Secretariat, Government of India.[27]
6. *Evaluation studies in NGOs*: Non-governmental organisations offer a unique setting for the purpose of strategic evaluation and control. The NGOs are organisations that are not in business to make profit, set performance goals unique to their activities, and set strategies to achieve goals and compete with other NGOs for scarce resources. NGOs in India—as elsewhere—are typically of small size, unorganised, run unprofessionally, and attempt to achieve a wide variety of economic, political, and social objectives. In such a milieu it is difficult for the NGOs to adopt formal standards and measures of performance. Often, evaluation of performance is done by simple means such as observation, visual inspection, informal discussions, interviews with project staff, beneficiaries, and 'knowledgeable informants' who are local people, and from project records. A high level of subjectivity is present in evaluation. If evaluation can demonstrate good achievement, NGOs can attract more funding, criticisms can be countered, success can be replicated, and lacunae in formulation and implementation removed. Yet, evaluation is not widely practiced by NGOs. If done, it is a one-time affair done usually when one phase of project being implemented has ended and funding for the next phase requires justification. Common forms of evaluation studies are periodic project reports and financial audits. There is an obvious need to develop workable methodologies and criteria for evaluating NGO performance especially in the contemporary situation where there is an increasing trend of NGO partnerships with the corporate sector.[28]

Exhibit 14.6 Operational Control of Central Public Enterprises in India

The Government of India is the owner of 245 central public sector enterprises (CPSEs). Basically, the CPSEs are accountable to the Parliament, and through audit and annual reports. Administrative or controlling ministries, committees on Public Undertakings, Bureau of Public Enterprises (BPE), and the Comptroller and Auditor General of India (CAG) are the main agencies concerned with the performance evaluation of CPSEs.

In 1987–88, the Government of India introduced the system of MOUs for performance evaluation of CPSEs. 'MOU is a freely negotiated agreement between the public enterprise and the administrative ministry. Under the agreement the enterprises undertake to achieve the targets set in the agreement at the beginning of the year. The MOU covers both financial performance as well as non-financial performance. Under this system performance of the company is organised into five categories namely: excellent, very good, good, fair, and poor.'

The objectives of the MOU system are to:

- Improve the performance of public enterprises by increasing autonomy and accountability of the management.
- Remove the fuzziness in the goals and objectives the enterprise is to pursue through clearly laid down performance targets at the beginning of the year in an MOU entered into between Chief Executive and Secretary of the Administrative Ministry.
- Enable the evaluation of managerial performance through objective criteria and provide a mechanism to reward good performance through performance incentives to stimulate improved performance.

Based on timeline that starts in October/November each year, the formulation of MOU takes place through an elaborate process of consultations and negotiations between all the participants on the side of the enterprises and the Government. The draft MOUs indicate the performance targets on a five-point scale as proposed by the CPSE for the ensuing financial year for all crucial parameters like production, sales, profits, etc. Additionally, the CPSEs are also expected to include dynamic parameters of significance for strengthening the future potential of the enterprise, such as project implementation, R&D, human resource development (HRD), etc. Appropriate weights are assigned to each of these parameters.

The measurement of performance is based on standards devised through the balanced scorecard approach and includes both financial and non-financial parameters having equal weights of 50 per cent each. The non-financial parameters are further divided into dynamic parameters (30 per cent), enterprise-specific parameters (10 per cent), and sector-specific parameters (10 per cent).

Overall, the results of using MOUs as an evaluation system have been mixed with a bias towards its increasing acceptability. The CPSEs have benefited by having higher operational autonomy. Several experts including CPSE managers are critical of the system and feel that devolution of authority from the government to CPSEs does not match the accountability expected.

Sources: Website of the Department of Public Enterprises, Government of India at *http://dpe.nic.in/*; *MOU Guidelines for 2014-2015* available at *http://www.dpemou.nic.in/MOUFiles/MoU2014-15.pdf*. Both websites retrieved 8 November, 2014.

Auditing techniques Auditing is basically a watchdog function in an organisation used to evaluate the soundness of organisational systems such as the accounting system. Auditing can play an indirect role in exercising operational control as it helps in finding lacunae in the organisational systems the correction of which can aid in performance improvement. There are many different types of audit used by organisations such as financial audit, operational audit, or information system audit. Under auditing we will make a special mention of social and environmental audits. The impact of organisational activities is not limited to the confines of the organisation itself. Strategic evaluation and control needs to take account the impact of the organisational activities on the society and the physical environment.

1. *Corporate social auditing:* Social audit has been prevalent in the voluntary sector since the 1950s but corporate social audit has only come to the fore during the 1970s. We referred to corporate social audit in Section 3.4 while discussing social responsibility. Corporate social audit is ‘a commitment to systematic assessment of and reporting on some meaningful, definable domain of the company’s activities that have social impact.’[29] It is also understood as ‘a method for organisations to plan, manage and measure non-financial activities and to monitor both the internal and external consequences of the organisation’s social and commercial operations’.[30] Social audit can help an organisation to assess the impact of its operational performance on the contiguous community as well as larger society. This could contribute to a better understanding of its social role and responsibility.
2. *Environmental auditing and sustainability reporting:* The environmental and sustainability agenda has been alive globally since 1970s but business has only taken serious notice during the 1990s. An environmental

audit is a method used to obtain accurate, comprehensive, and meaningful information on the environmental impact of a company from which management decisions can be based.[31] In India, environmental clearance is required to be obtained by industries whenever a new plant is set up or for an extension of an existing plant. Every financial year, the companies have to submit an environmental statement to the respective state pollution control boards in which their production units are situated. Environmental audit in India is done as a part of the compliance and performance audit done by the Supreme Audit Institution under the Comptroller and Auditor General of India.[32] Organisations including companies in the public and private sector bring out their sustainability reports to account for their performance in the area of sustainability management.

All the techniques discussed in this section have their respective merits and demerits. Strategists have to exercise a judicious choice from among the techniques to be used for strategic evaluation and control based on the requirements of the strategy that they are implementing. It is also clear that both strategic and operational controls have to be used in tandem to have an effective evaluation system.

14.5 ROLE OF ORGANISATIONAL SYSTEMS IN EVALUATION LO 5

The process of strategic evaluation and control does not operate in isolation; it works on the basis of different organisational systems that are used to implement strategies. We briefly review the role that organisational systems play in evaluation.

Role of Information System

The use of computerised information system in organisations has opened up myriad possibilities for using them for performance monitoring and reporting. In the control process, as we have seen earlier, evaluation is done by comparing actual performance with standards. The measurement of performance can be done on the basis of reports generated through the information system. In fact one of the purposes of information management system is to enable managers to keep track of performance through control reports. Several of the techniques described in the previous section, whether for strategic surveillance or financial analysis, are based on the use of information system to provide relevant and timely data to managers to evaluate performance and strategy and initiate corrective action.

There are some essential conditions to be satisfied before information systems can play an effective role in strategic evaluation. First, all stakeholders of the organisation must agree on the objectives and strategies to achieve them. Indicators must be defined for measuring performance and data sources have to be identified clearly for those indicators. Collection of data must then take place systematically and collated and aggregated to be reported in user-friendly formats. Finally, the data must be used by managers to assess and improve performance.

With the increasing sophistication of the information management systems and the use of IT, it is possible to devise elaborate methods for evaluation. One big benefit of using computerised information systems is the facility of real-time information availability to managers. For the purpose of evaluation this is significant as access to real-time information can enable managers to take timely corrective action rather than wait to find out the variance of actual from standard performance at the end of the evaluation process. Techniques such as data warehousing and data mining enable organisations to delve deep into their internal systems and come up with information that can be useful for evaluation and control purposes. Business intelligence software is becoming a popular IT application in helping organisations accessing data for the purpose of performance evaluation. Scorecards, dashboards, and key performance indicators are increasingly being used. The balanced scorecard technique is quite a popular tool for performance management. A corporate or executive dashboard, which is an IT tool to pull relevant data from the management information system and present in an interactive user-interface format, is frequently used to access real-time information in organisations. Thus, for instance, a marketing manager may have instant access to sales and distribution data from the field offices or a financial manager can be alerted in time if cost estimates are exceeded. In such situations, it is easier for managers to initiate corrective action quickly to deal with performance deviation. Key performance indicators or metrics are the measures of performance to be achieved.

The organisations either buy a ready-to-use licensed software package or get a customised software system developed according to their needs and requirements from a vendor of their choice. Many organisations design and build their own software packages that could be a better option in many cases. Information technology-based systems such as strategic enterprise management (SEM) can help to realise the full potential of information system in strategic evaluation. The SEM approach 'seeks to effectively link performance measurement and control to strategic objectives, in an attempt to ensure that operational decision-making is fully focused on delivering strategic objectives'.[33] While the more popular enterprise-wide resource planning (ERP) systems attempt to establish a horizontal linkage between the value chain activities in an organisation, SEM systems support strategic management by setting up a vertical linkage between strategic management functions such as strategic evaluation and control. Comprehensive systems, for instance SAP Business Suite are available from IT vendors such as SAP AG that claim to provide customer relationship management, ERP, product life cycle management, supply chain management, and supplier relationship management on a single platform.[34]

Role of Control System

The control system, of course, is at the heart of any evaluation process for setting standards, measuring performance, analysing variances, and taking corrective action. The central role of the control system in evaluation is evident from our discussion in this chapter.

Since strategic evaluation and control is a part of strategic management process it is to be planned for. Questions such as these are to be dealt with: Who will perform evaluation? How will the information generated be used? How much resources will be required? To what extent will control be exercised so that it is cost-effective? What administrative systems will be required to support the evaluation system? Further, the evaluation process also provides feedback to the planning system for the reformulation of strategies, plans, and objectives. Thus, the planning system closely interacts with the evaluation process on a continual basis.

The development system in an organisation prepares the managers for performing strategic and operational tasks. Among the several aims of development, the most important is to match a person with the job to be performed. This, in other words, is matching actual performance with standards. This matching can be done provided it is known what a manager is required to do, and what is deficient in terms of knowledge, skills, and attitude. Such a deficiency is found out through the appraisal system. What we term as corrective action in the evaluation process is, in reality, the taking of steps that would lead to the development of individuals so as to enable them to perform as required. The role of development system in evaluation is, therefore, to help strategists to initiate and implement corrective action. Employee performance management systems used through applications of IT play a helpful role in development system for exercising control in organisations.

Role of Reward System

Organisations design and operate their reward systems on the basis of the appraisal of performance of individuals. The appraisal system performs the critical role of evaluating managerial performance in the light of organisational objectives. The appraisal system actually evaluates performance and so is a part of the wider control system. Its significant role in evaluation, however, is to be acknowledged.

When the performance of managers is appraised, it is their contribution to the organisational objectives that is sought to be measured. In practice, it is difficult to differentiate strictly between the performance of individuals and that of the organisational units they belong to. Thus, the achievement of a department or a profit centre is the sum total—or even more, synergistically—of the individual performance of managers and employees in that department or profit centre. The evaluation process, through the appraisal system, measures the actual performance and provides the basis for the control system to work.

The relevance of reward systems to strategy implementation can be seen from the fact they are to be linked to control system at one end and motivation at the other. The central role of the motivation system is to induce strategically desirable behaviour so that managers are encouraged to work towards the achievement of organisational objectives. Now, if we look at the way that the evaluation process works, we will observe that its efficacy depends on the extent to which it is able to bring actual performance to the level of standards. In other words, the lesser is the deviation of actual performance from standards, the higher is the efficacy of the evaluation process. The motivation systems play a significant role in ensuring that deviations do not occur, or if they do, then they are corrected by the means of the rewards and penalties. Incentives systems are directly related to the amount of deviation. Performance checks, which are a feedback in the evaluation process (see Exhibit 14.2), are done through the motivation system.

During the process of strategic evaluation and control managers take one of three steps as shown in Exhibit 14.2: exercise a check on performance, put into effect a check on standards or reformulate plans, strategies, or objectives.

With the reformulation of objectives, we have reached the end of our intellectual journey or, may be, the beginning of a new one. The process is cyclical and recommences to traverse the path we have charted in the course of our study of strategic management. We hope that you enjoyed this intellectual journey as much as we did.

Summary by Learning Objectives

The chapter has dealt with the final phase of strategic management, i.e. strategic evaluation and control.

The main points covered in this chapter are as follows:

LO 1 *Describe the nature and importance of, and the barriers to, strategic evaluation and control and the role of participants in evaluation to make it effective*

- The nature of strategic evaluation is judgmental. Through evaluation, strategists can adjudge whether their strategy is in consonance with the environment and whether the performance of tasks would lead to the achievement of objectives. Strategic evaluation and control tests the effectiveness of strategy.
- The importance of evaluation lies in its ability to control strategy implementation and performance. The reasons for importance are several: need for feedback, appraisal, and reward; check on the validity of strategic choice; congruence between decisions and intended strategy; successful culmination of the strategic management process, and creating inputs for new strategic planning.
- There are various participants in evaluation including the shareholders, board of directors, CEOs, SBU heads, financial controllers, and audit committees. The board of directors and the CEOs enact the central role while the other participants play a supportive role.
- Because evaluation involves assessment of performance, certain barriers can be expected. Five major types of barriers in evaluation discussed in the chapter are: the limits of control, difficulties in measurement and resistance to evaluation, tendency to rely on short-term assessment, and relying on efficiency versus effectiveness.
- Effective evaluation can take place through observing certain guidelines for control. These state that the control should involve only the minimum amount of information, monitor only managerial activities and results, be timely, use long-term and short-term controls, aim at pinpointing exceptions, emphasise the reward of meeting, or exceeding standards.

LO 2 *Discuss the four types of strategic controls*

- Evaluation operates at two levels: strategic and operational. Strategic control is aimed at a continual assessment of the changing environment to see that the strategy is not out of line with it. It can be exercised through premise control, implementation control, strategic surveillance, and special alert control.

- Premise control aims to test the assumptions on the basis of which strategy is formulated.
- Implementation control assesses whether or not the different aspects of implementation need any change.
- Strategic surveillance monitors the environment for broad range of events inside and outside the organisation that might affect the course of strategy.
- Special alert control to create rapid-response ability to meet unexpected changes and crises.

LO 3 *Explain the process of operational control*

- Operational control is directed towards the evaluation of real-time action. The process of evaluation consists of four elements: (a) Setting standards in terms of quantitative and qualitative criteria; (b) The measurement of performance through the information system; (c) Analysing variances by comparing the actual performance with standards; and (d) Taking corrective action through checks on performance and standard, and a reformulation of strategies, plans, and objectives.

LO 4 *Outline the various techniques for exercising strategic control and operational control*

- There are several techniques available for exercising strategic control and operational control. Strategic control may be done through strategic momentum control and strategic leap control systems.
- Strategic control through strategic momentum control focuses on the continual validity of the assumptions on which strategies were formulated. There are three approaches to strategic momentum control of responsibility control centres, underlying success factors, and the generic strategies.
- Strategic leap control is applicable when the environment is unstable. There are four techniques used for strategic leap control: strategic issue management, strategic field analysis, systems modelling, and scenarios.
- The evaluation techniques for operation control internal analysis, comparative analysis, and comprehensive analysis. Besides there are two other sets of techniques: the special-purpose and auditing techniques.
- Internal analysis consists of value chain, quantitative, and qualitative analysis. Comparative analysis consists of historical analysis, industry norms, and benchmarking. Comprehensive analysis consists of key factor rating, business intelligence systems, and balanced scorecard. Special-purpose techniques are of network techniques, MBO, *parta* system, MOU system, and evaluation studies in NGOs. The auditing techniques are of social and environmental audit.

LO 5 *Examine the role of information, control, and reward systems in evaluation*

- The three organisational systems of information, control, and reward play differing, but significant, roles in strategic evaluation and control.
- Information system enables managers to keep track of performance through relevant and timely data available for evaluation.
- Control system is at the heart of any evaluation process for setting standards, measuring performance, analysing variances and taking corrective action. The control system prepares the ground for the process of strategic evaluation and control to take place.
- Reward system in an organisation zeroes in on the contribution employees make to the achievement of its objectives and reward that contribution in proportionate measure. Reward system helps develop and motivate personnel to receive rewards on the basis of performance appraisal. Reward system is linked to control system at one end and motivation of the employees at the other.

With this chapter, we conclude our discussion of the process of strategic management. The remaining part of the book is devoted to the application of strategic management through the case method.

EXERCISES

Short-answer Questions

1. What is the basic nature of strategy evaluation? **(LO 1)**

2. What questions are asked in strategic control? What questions are asked in operational control? How are these different? **(LO 1)**
3. Why is strategy evaluation important to organisations? **(LO 1)**
4. Highlight the role that the board of directors and the CEOs play in strategic evaluation? **(LO 1)**
5. What types of barriers are commonly faced in evaluation? How can these be avoided? **(LO 1)**
6. Explain the basic approach used in strategic control. **(LO 2)**
7. How can assumptions about environmental and organisational factors be tested? **(LO 2)**
8. How can strategic control help in resource allocation? **(LO 2)**
9. How is strategic surveillance done? **(LO 2)**
10. When can a special alert control be useful? **(LO 2)**
11. Differentiate between strategic control and operational control. **(LO 2, LO 3)**
12. What are the elements in the evaluation process for operational control? **(LO 3)**
13. What basic approach could be adopted for setting standards? **(LO 3)**
14. 'Companies should evaluate performance on the basis of a combination of quantitative and qualitative criteria'. Why is this so? **(LO 3)**
15. What issues are important in measuring performance? **(LO 3)**
16. In what different forms may deviation between actual performance and standards occur? How can they be checked? **(LO 3)**
17. How can strategists initiate corrective action? **(LO 3)**
18. Write a short explanatory note on evaluation techniques for strategic control. **(LO 4)**
19. Differentiate between strategic momentum control and strategic leap control. **(LO 4)**
20. Write a short explanatory note on evaluation techniques for operational control. **(LO 4)**
21. How can memorandum of understanding and result-framework document be used as an evaluation technique for performance of public enterprises? **(LO 4)**
22. Which type of auditing techniques can be used in operational control? **(LO 4)**
23. Briefly review the role of information system in strategic evaluation. **(LO 5)**
24. How is the reward system linked to control system at one end and motivation system at the other? **(LO 5)**

Assurance of Learning Exercises

1. Write a descriptive note on the nature and importance of strategic evaluation. **(LO 1)**
2. Which individuals and groups participate in the process of evaluation, what difficulties do they face, and how do they overcome them? **(LO 1)**
3. How will a comprehensive system of strategic control operate in a large sized business organisation? **(LO 2)**
4. Describe the different elements that constitute the evaluation process for operational control. **(LO 3**)
5. Consider the case of a corporate hospital, or any service institution of your choice, and suggest how a system of operational control would work in such an institution. **(LO 3)**
6. Describe and explain the application of the techniques for strategic control. **(LO 4)**
7. How can the conventional financial accounting system be made to serve the purpose of operational control? Discuss. **(LO 4)**
8. Discuss the different types of techniques used for operational control. **(LO 4)**
9. How is performance evaluation done in public enterprises in India? **(LO 4)**
10. Suppose there is an NGO that works in the tribal areas for spreading health awareness against indiscriminate use of tobacco and alcohol. Propose an effective system of strategic evaluation and control that could be used by such an NGO. **(LO 1, LO 2, LO 3, LO 4)**
11. Make a chart showing clearly the role that the information, control, and reward systems play in strategic evaluation. Provide examples to highlight the role of each organisational system. **(LO 5)**
12. Propose a system to be adopted for evaluating performance of your management institute. Identify the parts that relate to strategic and operational control respectively. Also suggest the techniques that should be used for evaluation. **(LO 2, LO 3, LO 4)**

Review Case

EXERCISING STRATEGIC EVALUATION AND CONTROL AT IGATE GLOBAL SOLUTIONS*

iGATE Corporation, headquartered in New Jersey, US, is in the business of integrated technology and operations-based solutions having about 35,500 employees and revenues of US$ 1.2 billion. iGATE serves the banking and financial services, insurance, healthcare and life sciences, manufacturing, retail and consumer products, media and entertainment, energy and utilities, and product and engineering industries in America, Asia Pacific, and Europe. It offers integration of technology and customer processes through cloud computing, data analytics, digital technology, and mobility. It has eight key subsidiaries around the world.

The Indian subsidiary of iGATE is the Bangalore-based iGATE Global Solutions, known earlier as Mascot Systems. It was set up in India in 1993 as an offshore development centre and to offer IT staffing services. It acquired business process outsourcing (BPO) and contact centre businesses in 2003 making it an end-to-end IT and ITES service provider. In 2011, it acquired Patni Computer Systems which merged in 2013. It has seven delivery centres in India. iGATE's revenue for 2013–14 was Rs. 357 crore and net profit Rs. 49.44 crore. Ashok Trivedi is the chairman, Sunil Wadhwani, vice chairman, and Ashok Vemuri is the president and CEO.

The corporate strategies of iGATE are offering integrated IT-enabled services and divesting the legacy IT-staffing business and possibly making acquisitions in the domain expertise for financial services businesses. The business strategy is focused differentiation based on focal points of testing, infrastructure management, and enterprise solutions. The competitive tactic is avoiding head-on competition with the formidable larger players in the industry by carving out a niche. The business definition is serving large customers and staying away from sub-contracting work. In 2014, iGATE reorganised itself into vertical-based business units where leaders will have responsibility and accountability towards the clients, shareholders, and employees. The restructuring aimed at the creation of smaller industry-focused business units with independent responsibilities with the heads focussing on consultancy, delivery, and sales. In the European region, iGATE would continue with the geographical structure.

iGATE adopts a differentiation business model called the integrated technology and operations (ITOPS) model. The model enables optimisation of clients' business through a combination of process investment strategies, technology leverage and business process outsourcing and provisioning. It facilitates a single-point analysis of business goals, IT, operations, processes, human resources and related costs. The ITOPS model is advancement over the prevalent model in the ITES industry based on low-cost arbitrage integrated technology and operations is based on transaction-based pricing for services and supporting the clients by providing the platform, processes, and services.

The strategic evaluation and control had both the elements of strategic as well as operational controls. The functional and operational implementation was aimed at achieving four sets of objectives:

a. Shifting from small customers to large customer (Fortune 1000 companies)
b. Shifting away from stocking to project-consulting assignments
c. Working directly with clients rather than system integrators
d. Moving from a local to international markets

Some illustration of the performance indicators that reflect these objectives are:

1. On-shore versus off-shore mix of business revenues
2. Billing rates: Revenue charged from clients on assignments. With project consulting assignments from off-shore clients where the revenues are typically higher with lower costs and higher productivity in India the realisation from billing have to be higher.

3. The number of large clients from Fortune 1000 companies: Presently, iGATE has nearly a majority of 300 clients from Fortune 1000 companies
4. Controlling employee costs: This is an area where concerted effort is required from the HR and finance functions. Hiring less experienced employee lowers the compensation bill. In the IT and ITES industry attracting and retaining well-qualified and experienced employees is a critical success factor. The performance indicator for this objective is cost per employee.
5. Human resource metrics such as the hiring and attrition rates: In the IT and ITES industry the human resource metrics such as hiring and attrition rates are critical indicators. Increasing the number of employees and lowering the attrition rate by retaining the employees is a big challenge. iGATE professes to follow 'hire-for-growth' approach rather than hiring 'just-in-time'.

The human resource management (HRM) function being critical in an industry where so many challenges exist needs a strong emphasis on training and development, motivation, autonomy, and attractive incentives. Career planning takes place over a 10 to 12-year horizon and employees can map out their future on the company intranet. The company has set up the iGATE Corporate University at Pune that has a capacity to train 800 employees at all levels at a time.

The human resource model at iGATE is based on the 5C concepts of compensation, camaraderie, career growth, culture, and competency. It is an elaborate model covering metrics in each of the 5C areas. For instance, competency involves 19 engineering and 13 behavioural and leadership skills. iGate's 25,500 employees in India go through a competency assessment once every 6 months involving at least nine of these competencies. The reward system at iGATE consists of meritorious employees across all levels being granted restricted stock options, thus, providing an incentive to remain with the company till they become due. The company, though, is an average paymaster a disadvantage it tries to trade-off with offering more challenging work environment, quicker promotions, and chances for practising innovation.

Critics say that that iGATE lacks the big-brand appeal of the larger players such as Infosys and Wipro, cannot compete on scale, and is still under the shadow of its original business of body-shopping IT personnel. Looking at the recent successes of the company in making internal restructuring and getting impressive new accounts this may not necessarily be correct.[35]

Questions

1. Analyse the iGATE case to highlight how it could apply some of the strategic controls such as premise control, implementation control, strategic surveillance, and special alert control. **(LO 2)**
2. Analyse and describe the process of setting of standards at iGATE. **(LO 3)**
3. Give your opinion on the effectiveness of the role of reward system in exercising HR performance management at iGATE and suggest what improvements are possible given the environmental conditions in the IT/ITES industry in India at present **(LO 5)**

Notes and References

1. Apollo Hospitals Enterprise Limited website at *https://www.apollohospitals.com/index.php*; *AHEL's Annual Report 2013-2014* at *https://www.apollohospitals.com/apollo_pdf/ahel-annual-report-2014.pdf*; 'Apollo Hospitals Rejigs Designations at Top Level,' *Business Today* (3 July, 2014) at *http://businesstoday.intoday.in/story/apollo-hospitals-rejigs-designations-at-top-level/1/207814.html*; 'Father, Daughters & Co.,' *Business World* (3 June, 2011) at *http://www.businessworld.in/news/business/corporate/father-daughters-&-co/310430/page-1.html.* All websites retrieved November 27, 2014.
2. R. Simons, 'How New Top Managers Use Control Systems as Levers of Strategic Renewal,' *Strategic Management Journal,* 15 (1994): 169–89.
3. S.K. Bhattacharya and N. Venkataraman, *Managing Business Enterprises* (New Delhi: Vikas Publishing House, 1983): 168.
4. R. Chitoor and R. Das, 'Professionalization of Management and Succession Performance—A Vital Linkage,' *Family Business Review,* 20, no. 1 (March 2007): 65–80.

5. K.N. Taneja, 'Who evaluates the Chief Executive?' *Business India* (17–30 November, 1986): 81.
6. CEO of the year award is given by Frost and Sullivan, an international consultancy whose website is at *http://www.frost.com/prod/servlet/company-info.pag*. Retrieved 18 February, 2008.
7. See SEBI website for details about Clause 49 for listing agreements here *http://www.sebi.gov.in/commreport/clause49.html*. Retrieved 8 November, 2014.
8. K.R. Andrews, *The Concept of Corporate Strategy* (Homewood, IL: Dow Jones-Irwin, 1971): 205.
9. J.D. Hunger and T.L. Wheelen, *Strategic Management* (Addison Wesley Longman, Reading, Mass., 1999): 248.
10. G. Schreyogg and H. Steinmann, 'Strategic Control: A New Perspective', in *Academy of Management Review,* 12, no.1 (1987): 91–103.
11. J.A. Pearce II and R.B. Robinson, Jr., *Strategic Management: Strategy Formulation and Implementation,* 3rd. ed. (Homewood, IL: Richard D. Irwin, 1988): 409.
12. David A. Aaker, *Developing Business Strategies* (New York: John Wiley & Sons, 1984): 128.
13. I.I. Mitroff, 'Crisis Management: Cutting Through the Confusion,' in *Sloan Management Review* (Winter 1988): 19.
14. W.F. Glueck and L.R. Jauch, *Business Policy and Strategic Management,* 4th ed. (New York: McGraw-Hill, 1984): 397.
15. *Ibid.* 399–402.
16. R. Chitoor and R. Das, *op. cit.*, 65–80.
17. J.G. Thomas, *Strategic Management: Concepts, Practice and Cases,* (New York: Harper & Row, 1988): 388.
18. P. Lorange, M.F. Morton, and S. Ghoshal, *Strategic Control* (St.Paul: West Publishing, 1986): 1.
19. Thomas, *op. cit.,* pp. 343–45.
20. R.N. Anthony and J. Dearden, *Management Control System: Text and Cases,* (Homewood, IL: Richard D. Irwin, 1977): 179-18.
21. Thomas, *op. cit.*, 346.
22. H.I. Ansoff, *Implanting Strategic Management* (Englewood Cliffs, N.J.: Prentice-Hall, 1984): 337.
23. P. Lorange, *et al., op cit.,* 104–16.
24. J.D. Wiest and F.K. Levy, *A Management Guide to PERT/CPM* (New Delhi: Prentice-Hall of India, 1979): 94–95.
25. S. Sharma, *Management Control Systems: Text and Cases* (New Delhi: Tata McGraw-Hill, 1988): 150–51.
26. P. Trivedi and V. Gopal, 'Memorandum of Understanding and Other Performance Improvement Systems—A Comparison,' *Indian Journal of Public Administration,* XXXVI, no. 2 (April–June, 1990): 209–91.
27. See the RFD system at *https://rfmshry.nic.in/HRY/LoginPage;jsessionid=9D0C5C6EA6240DBD925308E56BC75072*. Retrieved 9 November, 2014.
28. A. Kumar, *Social Change through NGOs* (New Delhi: Anmol Publications, 2003): 211–27.
29. R.A. Bauer and D.H. Fenn, Jr., 'What is a Corporate Social Audit?' *Harvard Business Review,* 51, no. 1 (1973): 37–48.
30. F. Spreckley, *Social Audit – A Management Tool for Cooperative Working* (Leeds, UK: Beechwood College, 1982).
31. Definition of environmental audit by Envirowise of U.K. available at *http://www.envirowise.gov.uk/page.aspx?o=119479* Retrieved 14 February, 2008.
32. For details of environmental audit by Comptroller and Auditor General of India see *http://www.icisa.cag.gov.in/BackGroundEnvironmentAuditing/Environment%20auditing%20India_CAG.pdf*. Retrieved 9 November, 2014.
33. M. Fahy, *Strategic Enterprise Management Systems: Tools for the 21st Century* (London, UK: The Chartered Institute of Management Accountants, 2001): 173.
34. Information about SAP Business Suite from SAP India website at *http://www12.sap.com/solutions/business-suite/index.epx* Retrieved 14 February, 2008.
35. iGATE Global Solutions website at *http://www.igate.com/igate-global-solutions-limited/*; iGATE Corporation website at *http://www.igate.com/about-us/overview*; iGATE Annual Report 2013-2014 at *http://www.igate.com:8080/documents/11041/0/Annual+Report+2013-14_Final.pdf/72efd0b7-605e-4860-b5fb-abd385974fdb*; 'iGate Unveils New Brand Identity,' *Business Today* (12 May, 2014) at *http://businesstoday.intoday.in/story/igate-under-ashok-vemuri-unveils-new-brand-identity/1/206095.html*; 'iGATE Firms Up New Strategy under Ashok Vemuri,' *Business Today* (26 November, 2013) at *http://businesstoday.intoday.in/story/igate-new-strategy-under-ashok-vemuri-vertical-heads/1/200870.html*; 'iGate Global Solutions: The Rise of the Underdog,' *Business Today* (25 January, 2009) at *http://businesstoday.intoday.in/story/igate-global-solutions-the-rise-of-the-underdog/1/3609.html*. All websites retrieved December 21, 2014.

Case 1

Indian Cosmetics and Toiletries Industry Profile*

Handbook of Cosmetic Science and Technology mentions three reasons why human beings use cosmetics: (a) to enhance personal appeal through adornment of body; (b) to camouflage flaws in integument such as pimples on face; and (c) to alter or improve upon natural beauty. Use of cosmetics and toiletries is not just for vanity; it is to enhance beauty or to camouflage ugliness. Being beautiful is considered to be advantageous in many ways: attractive people earn more, are more likely preferred life partners, and more acceptable in society. No wonder, Americans spends more on beauty than on education. The cosmetics and toiletries industry caters to the needs and wants as well as the whims and fancies of their customers.

HISTORY AND EVOLUTION OF COSMETICS AND TOILETRIES INDUSTRY

"A woman without paint is like food without salt" said the Roman philosopher, Plautus. The origin of cosmetics lies in antiquity since times immemorial when human beings began to use adornments for body. Egyptians were well-versed with the use of body oils, face and body paints and ointments, Babylonians in the use of depilatories and eye adornment, Greeks in perfumes, Romans in creams, Chinese in nail paints, and Persians and Arabs in incense and perfumes. Middle age England provides evidence of commoners aping the royals in use of cosmetics. Records of people using cosmetics and, also, beauty treatments can even be found in the Old Testament.

India has had a long history of using henna, perfumes, kohl, and flower fragrances. Indians have traditionally been used to using natural ingredients to make cosmetics and toiletries. Historical evidence shows that the ideas of self-beautification and use of cosmetics both by women and men in ancient India were prevalent. The deep understanding of the use of cosmetics in Indian history is evidenced in the cosmetic practices interwoven with seasons, daily rituals, longevity, health and happiness.

At different times in history, the use of cosmetics and toiletries has been limited to royalty and aristocracy due to its exclusiveness. Strangely, at other times, such use has also been ascribed to women of dubious morality who needed to adorn themselves to enhance their appeal or hide their ugliness and age. In some societies, the use of cosmetics has been considered taboo due to societal or religious reasons while there are other societies where its use has been celebrated in arts, literature, sculpture and painting.

The modern cosmetics and toiletries industry emerged in the 19th century and along with colonisation and imperialism spread the western beauty ideals around the world. This facilitated the association of white-

* This industry profile has been prepared by Dr. Azhar Kazmi, formerly Professor of Business Administration at the Aligarh Muslim University, India and Dr. Adela Kazmi, Lecturer in Management at Sophia College, Ajmer, India. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation.

skinned, westernised people with the prevailing beauty conception of people. European and American firms became the pioneers of cosmetics and toiletries products and rapidly spread through multinational firms making and selling consumer products. Paris and New York became the beauty capitals of the world. The cosmetics and toiletries industry took advantage of these underlying trends by creating brands. Subsequently, by creating aspirations around those brands made them exclusive and pushed them into global markets leading to creeping homogenisation of beauty ideals.

The advent of 20thcentury, especially since the 1920s, saw the beginning of the fashion revolution. It was caused by the advances in chemical industry, industrialisation, and increasing international trading. Performing arts such as theatre, ballet and films provided a boost to use of cosmetics and led to its popularity among masses. International beauty pageants, fashion shows, and the film industries have added to the popularity and mystique of using cosmetics and toiletries around the world.

MARKET SIZE AND POTENTIAL

Cosmetics and toiletries products are a part of the larger beauty and personal care industry. Usually, when cosmetics are referred to, what is meant is colour cosmetics and make-up segment of the personal care industry. The US is the biggest consumer of cosmetics and toiletries products and France is the largest exporter. The markets have been shifting in recent years from the Western countries to South America, Eastern Europe and Asia, particularly China.

The potential of beauty and personal care products in India can be gauged from the comparison of statistics with global and comparable economies around the world. The market size and forecast till 2018, as shown in Exhibit 1, shows that India had about US$10.36 billion market size in 2014, which is expected to grow to US$13.48 billion by 2018. Seen in comparison to the size of market in the US at US$79.5 billion in 2018, it seems to be quite low. Even comparing it to China—that is likely to have a market size of US$65 billion or Brazil at US$59 billion—the Indian market is small and is nearly equal to that in Russia where the market is declining. The small market size at present indicates that the scope for future prospects is encouraging.

Exhibit 1 Market Size (Historic and Forecast) for Beauty and Personal Care Products in US$ Million

	2013	2014	2015	2016	2017	2018
USA	73,256.1	74,297.0	75331.3	76548.0	77900.9	79495.9
China	44,219.8	47,240.4	50,793.1	54,938.6	59,650.8	65,007.5
Brazil	42,952.8	46,285.7	49,197.9	52,398.3	55,621.7	59,018.8
India	9,793.1	10,359.5	10,992.6	11,733.0	12,568.7	13,481.6
Russia	14,176.6	13,668.3	13,473.6	13,389.4	13,378.4	13,410.4
South Africa	3,682.0	3,828.0	3,967.8	4,096.8	4,211.8	4,312.8
Global	444,864.7	455,872.1	467,743.7	481,224.1	495,652.3	511,381.6

Source: Euromonitor from trade sources / national statistics

The per capita consumption for beauty and personal products in India is estimated to be quite low at US$8.2 in 2014, which is likely to grow to US$10.1 by 2018, as shown in Exhibit 2. The highest consumption is in Brazil which, by 2018, is likely at be at US$283.4 per person followed by that in USA at US$242.2.

China with its huge population has nearly 4.7 times more consumption per person as compared to that in India. Low consumption of beauty and personal products in India at present supports the view that there are good prospects for growth.

Exhibit 2 Per Capita Consumption of Beauty and Personal Care Products in US$ Per Year

	2013	2014	2015	2016	2017	2018
Brazil	214.4	229.1	241.6	255.3	269.0	283.4
USA	231.6	233.1	234.6	236.6	239.1	242.2
Russia	98.9	95.1	93.6	92.8	92.5	92.6
South Africa	69.8	72.0	74.2	76.1	77.8	79.1
China	32.7	34.7	37.2	40.0	43.3	47.0
India	7.9	8.2	8.6	9.0	9.6	10.1
Global	75.1	76.2	77.4	78.9	80.5	82.4

Source: Euromonitor from trade sources / national statistics

The growth index, with base at 2013, is expected to be 128.8 by 2018 in India, as shown in Exhibit 3, could be considered as moderately high growth. The fastest growth by 2018 is anticipated in China at 143.9 followed by Brazil at 132.2. Brazil already has a high per capita consumption. In the US the growth index shows very low growth as compared to the base of 100 in 2013, the growth index is only 109.7 by 2018.

Exhibit 3 Growth Index of Beauty and Personal Care Products

	2013	2014	2015	2016	2017	2018
China	100.0	106.3	113.8	122.5	132.5	143.9
Brazil	100.0	106.9	112.7	119.1	125.5	132.2
India	100.0	104.3	109.2	115.0	121.6	128.8
South Africa	100.0	103.3	106.3	109.1	111.4	113.4
USA	100.0	100.7	101.3	102.2	103.2	104.6
Russia	100.0	96.2	94.6	93.8	93.6	93.6
Global	100.0	101.5	103.1	105.1	107.2	109.7

Source: Euromonitor from trade sources / national statistics

India permits entry of imported cosmetics and they have had a major impact on the Indian market. It is also another dimension that indicates the growth of cosmetics and toiletries in India. Imports of cosmetics and toiletries products have been growing in recent years at a healthy pace. Exhibit 4 shows the import value during the five-year period 2009–2014. Some of the major cosmetics items imported by India are fragrances, non-transfer long-stay lipsticks, liquid lip colour, eye make-up, specialized skincare products, particularly anti-ageing/anti-wrinkle, anti-blemish and skin-whitening (fairness) creams, professional hair-care and styling products, and preparations for shaving creams and skin care products for men. Sun care products such as sun blocks and sun protection products are also popular.

Exhibit 4 Imports of Essential Oils and Resinoids, Perfumery, Cosmetic or Toilet Preparations

Year	Imports in Rs. Lakh	Year-on-year growth in per cent	Exports in Rs. Lakh	Year-on-year growth in per cent
2014 (Apr-Nov)	261,721.02		602,566.61	
2013-2014	349,828.01	12.23%	882,846.73	6.00%
2012-2013	311,716.36	24.98%	832,880.62	35.34%
2011-2012	249,412.50	33.59%	615,406.95	39.27%
2010-2011	186,697.07	30.81%	441,874.46	12.84%
2009-2010	142,723.50		391,580.75	

Source: Department of Commerce, Export-Import Data Bank at *http://www.commerce.nic.in/eidb/Icomcnt.asp*. Last retrieved February 11, 2015.

Overall, the market indicators point out the prospects of beauty and personal products in India as good with adequate potential for growth in market size and rise in per capita consumption. The likely areas for growth include colour cosmetics, fragrances, specialised skin care and hair care products, professional salon items, and makeup cosmetic products. In the skin care segment, Indian consumers face specific skin problems and thus look for expertise in solving them. They also aspire to use international premium skin care brands. The shampoo segment has seen a major shift; consumers moving beyond basic hair washing to specific hair needs such as hair loss and baldness. The hair oil segment traditionally has had nearly half of consumption coming from purchase of loose hair oil which is perceived as having association with nutrition. There is growing awareness of better quality in packaged hair oil.

INDUSTRY STRUCTURE AND DRIVERS

In India, the cosmetics and toiletries industry could be broadly divided into the organised and unorganised sectors. The organised sector has three kinds of firms:

1. Multinational firms such as Hindustan Unilever, P&G, Colgate-Palmolive, L'Oreal, Revlon, Estee Lauder, Maybelline, Amway and Avon.
2. Large Indian firms such as Dabur, Godrej, Marico, Emami, Himalaya Herbals, Bajaj Corp, and Jyothi Labs.
3. Small and medium-sized Indian companies which are several in number.

There is a huge unorganised sector comprising small-scale, micro and cottage units spread over the country making products based on imitation or traditional formulae with local chemicals and materials. Micro, small and medium (MSME) sector has registered as well as unregistered units that manufacture soaps and detergents, cleaning and polishing preparations, and perfumes and toiletries preparations all coming under the National Industrial classification code 2424. According to the 2011 edition of the survey report of the Ministry of micro, small and medium enterprises, there were 11,571 registered units employing 78,854 persons, having gross value of output at Rs. 7720.19 crore including export value of Rs. 314.69 crore in 2006-2007. There were 55,000 unregistered units employing 1.74 lakh persons, having gross value output of Rs. 921.70 crore in 2006-2007. An innovative move was initiated in 2007 by the small and medium-scale pharmaceutical and cosmetics manufacturers in Maharashtra to team up to form clusters as part of their strategy to survive and tap opportunities in the export markets.As a beginning, about 90 cosmetics manufacturers have joined together to float the first cosmetics cluster in India—the 'Herbal and Cosmetics Cluster at Wasai, an eastern suburb of Mumbai,' on the outskirts of Mumbai. The Wasai cluster will also become the seventh cosmetics cluster in the world.

Cosmetics and toiletries industry around the world is highly fragmented with many small and mostly family-owned firms; many of which are highly secretive about their activities. This makes it a difficult industry to analyse and understand. It is not a capital- or technology-intensive industry, so it is easy to launch an entrepreneurial venture making beauty products or to set up a service outlet to provide beauty services. This industry experiences sudden shifts in fashions and fads that could challenge the market position of existing firms and open up opportunities for newer ones. Brand loyalty is fickle as customers watch new products being introduced at a dizzying pace. Cosmetics are not necessities so require a high level of imagination and creativity to be marketed. It is hard to assure success of cosmetics products as the markets are highly competitive and there are a large number of competing products vying for the customers' attention. Effective marketing communication and getting through the products through myriad distribution channels require high level of creative talent and astute marketing skills. The ability to understand consumer behaviour and preferences is the key to success in the cosmetics and toiletries business.

There are a number of factors that are seen as driving the demand for cosmetics and toiletries in India. Among these are: the emergence of a young urban elite population with increasing disposable income in cities, the rise of the aspirational class in rural and semi-urban areas that want to partake the fruits of economic development; an increase in the number of working women, changing lifestyles of Indians, increased affordability of lifestyle-oriented and luxury products, desire to experiment with brands and products, penetration of satellite television, freer imports and increasing appetite for western goods, greater product choice and availability, greater awareness of products and brands and the emergence of e-commerce. The growth of Indian film industry and fashion industry and crowning of many Indian women at international beauty pageants has also proved to be beneficial to the prospects of cosmetics and toiletries industry in India. Indian consumers tend to look towards Indian as well as international brands as lifestyle enhancement products. Foreign products have enhanced growth of the Indian market by attracting aspirational consumers and most Indians generally perceive foreign brands as being of superior quality.

PRODUCTS, TECHNOLOGY AND MANUFACTURING

Cosmetics and toiletries in India are placed under the group of 'manufacture of other chemical products' according to the National Industrial Classification, 2008. The class of products comes under the manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations. The sub-class of cosmetics and toiletries includes manufacture of pre-shave, shaving or after shave preparations; personal deodorants and anti-perspirants; perfumed bath salts and other bath preparations; beauty or make-up preparations and preparations for the care of the skin, other than medicaments; manicure and pedicure preparations, etc. In practice, however, these classifications do not seem to be sacrosanct—though still legal in India—possibly owing to the dynamic nature of the industry.

The cosmetics and toiletries products include a wide range of products that are listed as follows:

1. Skin care
2. Hair care
3. Fragrance
4. Personal hygiene
5. Make-up products

a. Face makeup
b. Eye makeup
c. Lipstick
d. Nail products

An illustrative list of the bewildering variety of products and services of cosmetics and toiletries industry in India is presented in Exhibit 5.

Exhibit 5 An Illustrative Chart of the Variety of Cosmetics and Toiletries Products in India

Aloe Vera Hair Conditioner	Eye Cream	Moisturising Cream
Amla Hair Oil	Eyeliner	Moisturising Gel
Amla Shikakai Shampoo	Face Cleanser	Moisturizer
Anti Acne Cream	Face Creams	Moisturizing Lotion
Anti Aging Cream	Face Scrub	Moisturizing Skin Lotion
Anti Dandruff Lotion	Face Wash	Muscle Pain Oil
Anti Dandruff Oil	Facial Cream	Nail Polish
Anti Dandruff Powder	Facial Gel	Nail Polish Remover
Anti Marks Cream	Facial Scrubs	Natural Body Creams
Anti Pigmentation Cream	Hair Care Cosmetics	Natural Hair Wigs
Anti Pimple Cream	Hair Care Products	Nourishing Creams
Anti Wrinkle Cream	Hair Cleanser	Petroleum Jelly
Anti-dandruff Shampoos	Hair Colours	Plastic Combs
Antiseptic Cream	Hair Conditioner	Powder Brush
Apricot Scrub	Hair Creams	Raw Materials for Cosmetics
Artificial Human Hair	Hair Dye	Remy Hair Extension
Astringent Lotion	Hair Gels	Shaving Cream
Ayurveda Cosmetics	Hair Growth Gel	Shaving Kit
Baby Oil	Hair Nourishing Conditioner	Skin Care Cosmetics
Baby Powder	Hair Oil	Skin Care Creams
Beauty Creams	Hair Shampoos	Skin Cream
Beauty Salon Equipment	Hair Styling Gel	Skin Moisturizer
Body Brush	Hair Tonic	Skin Ointments
Body Care Products	Hair Washing Lotion	Skin Tonic

Contd.

Exhibit 5 *Contd.*

Body Deodorants	Hand Washing Gels	Soap
Body Massage Oil	Hand Weft Hair	Soap and Detergents
Body Moisturizers	Henna	Sun Protection Cream
Body Oils	Henna Hair Dye	Sun Protection Lotion
Body Scrubber	Henna Paste	Sunscreen Lotion
Bristle Hair Brush	Henna Tube	Talcum Powders
Cold Cream	Human Hair Extension	Toilet Roll
Compact Powder	Human Hair Wigs	Toiletries
Cosmetic Brushes	Lemon Shampoo	Tooth Brush
Cosmetic Ingredients	Lip Balm	Tooth Paste
Cosmetics Intermediates	Lipstick	Waxing Strips
Curly Hair Wigs	Microcapsule	Wigs for Men
Dry Skin Ointment	Microspheres	Wigs for Women

Source: Based on information available at *http://www.indianindustry.com/cosmetics/*. Last retrieved February 13, 2015.

A review of the global cosmetic industry points out four important trends on technology and innovations. These are: utilisation of information systems to enhance marketshare; growing proportion of transitive cosmeceuticals in the cosmetic market; and special cosmetic products for aging population and customisation for ethnicgroups. The information systems are mainly manifested in the increasing use of online advertising campaigns that can be planned and launched in shorter times than for those in print media. Online shopping is also a rising marketing access channel for customers and manufacturers. An apt example of the use of technology and innovation in cosmetics industry is of two L'Oreal brands that launched partnerships with technology companies to allow customers to use the latest technology to let the customers try out cosmetics before they buy. Yves Saint Laurent(YSL) group has partnered with Google to enable make-up artists to show customers how to apply their make-up via digital technology, while L'Oreal has launched a 'make-up genius' app to allow customers to see how make-up will look on their face before buying it. Technological advancements in area such as stem cell, superoxide dismutase and fullerenes are some of the innovative ingredients to produce skin care, hair care and colour cosmetics with new or improved functionality.

Cosmeceuticals, a combination of cosmetics and pharmaceuticals, refer to cosmetic products that have medicinal or drug-like benefits. According to market studies around the world, there is an increasing segment of customers who look for not just beauty enhancing qualities in cosmetics but also their ability for curing, mitigating, treating and preventing diseases. Anti-aging cosmetics have a rising demand from people who wish to prevent wrinkles and smooth out skin defects. This is done by the cosmetics and toiletries industry by widening the ambit of ingredients they use such as plant acids and enzymes to produce sun screens lotions and creams. Customisation for ethics groups is a major trend in innovation to adapt cosmetics and toiletries to different ethnic groups around the world on account of varying skin and hair types. Skin whitening cosmetics are a popular product category in countries such as India and global and domestic companies attempt to cater to customers interested in whitening skin and preventing the harsh effects of extreme climate.

Manufacturing of cosmetics and toiletries is a combination of the old and the new. There are age-old methods still in use in factories that rely on traditional ways of making cosmetics. On the other hand, there are modern production units that rely on sophisticated equipment and methods and chemistry of producing cosmetics. A large part of cosmetic chemistry is to do with making blends of mild detergents which can be used to clean the skin. These mixtures have to be effective, mild and safe, and make up alarge proportion of the total volume of cosmetics. When traced back to source the basic raw materials for these surfactants are either plant oils or petroleum. A typical shampoo is usually diluted anionic surfactant that is harsh on human skin and hair when used alone and so is blended with other surfactants to reduce the ill-effects and to improve the cosmetic properties such as creaminess and stability of the product. The final product emerges after the basic shampoo is subjected to cosmetic enhancement through addition of ingredients that impart colour, perfume and other effects as pearl effect.

In recent years, it has been the manufacturing practice of larger players to seek manufacturing efficiencies by moving offshore completely, or by concentrating on fewer products and making these as efficiently as possible. The global companies where the first approach was adopted include Reckitt & Colman, Elizabeth Arden, L'Oreal, Avon, Wella and Helene Curtis. In contrast to this the strategy of concentrating on fewer products and making these on an internationally competitive basis has allowed Gillette to become the regional supplier of shaving foams, hair sprays and antiperspirants to the Gillette group.

SALES AND MARKETING OF COSMETICS AND TOILETRIES

Cosmetics and toiletries is one of the fastest growing retail segments in India. The Indian cosmetics and toiletries industry has been a traditional strong hold of a few major players like Lakme and Ponds. After liberalisation in 1991, there have been a number of foreign entrants to the Indian markets. The strong growth of organized retail in India is also creating a demand for more imported cosmetics products, even in second tier cities, where disposable incomes are larger and the demand has been subdued due to want of choices and options.

The segmentation of markets for cosmetics and toiletries is based on several different types of bases. A popular way is to segment in terms of product categories as Euromonitor, the marketing intelligence firm does. This segmentation is as below:

Exhibit 6 Segmentation of Cosmetics and Toiletries Market According to Product Categories

Baby care	Depilatories	Oral hygiene
Bath and shower	Fragrances	Premium cosmetics
Beauty and personal care	Hair care	Sets / kits
Colour cosmetics	Mass cosmetics	Skin care
Deodorants	Men's grooming	Sun care

S*ource*: Based on segmentation suggested by Euromonitor

Another popular way in India is to segment on the basis of pricing and the type of customers. This leads to the creation of a premium segment that is a smaller, niche market with high quality, better packaged and higher priced products. The other segment is the mass segment which is a high volume and low price segment that is aimed to attract first-time users among lower and middle classes who aspire to use cosmetics but cannot afford the highly priced ones.

Positioning and branding is important in cosmetics and toiletries marketing. Association with foreign names in terms of companies may make the customers perceive them as better quality. Herbal content or ayurveda base may attract many types of customers who are interested in cosmetics that have not side-effects. In addition, the plethora of cosmetics products in the market makes it imperative for the positioning to be clear and focused. Positioning for premium segment of cosmetics is aimed at product differentiation. The success of Hindustan Unilever's Fair & Lovely cream serves to show the importance of positioning as it is marketed as 'change of destiny' product that makes the women transform in many ways and not just skin deep. Lifebuoy continues to remain the world's largest selling soap on the basis of its health protection positioning. Dettol, packaged in a green wrapper, is positioned as a germicidal soap while Lux continues its long-standing brand positioning as beauty and glamour. Pears soap remains the glycerine-based, non-animal fat, transparent soap in the premium category.

Consumer behaviour in cosmetics and toiletries market in India offers challenging contrast to what is seen in other countries particularly in Europe and US. Indians have traditionally been perceived to be savers than spenders. Yet, there is a subtle change in behaviour affecting the spending pattern of consumers indicating that there is greater willingness to loosen the purse strings and start living for today than saving for future. Consumers, especially among working women in metros like to pamper themselves and spend more on beauty and personal care products. Increasingly, it is not just women who are interested in buying cosmetics but there is a growing market for male grooming products. Indian men have a very different attitude to using cosmetics than their foreign counterparts. For instance, they are not ashamed of using their sisters' or wives' face cream or trying out their hair colouring. Demand is rising not just in the metropolitan cities but in smaller cities and towns including the tier II and III cities. The consumption patterns are also undergoing change as earlier girls in schools and colleges did not wear make-up, but now they start early. This segment is growing but most companies seem to be focusing on the core segment of working women in metros aged between 21 and 28. Women in smaller towns use more of colour cosmetics after they get married otherwise it is occasion-based usage in India. Customers in these markets are price-sensitive, aware of the ill-effects of chemical-based cosmetics and thus prefer natural and ayurveda products.

Pricing is a sensitive issue in cosmetic and toiletries industry owing to several unique factors. There is an impression that the Indian customers want the best but not always willing to pay for the best. This may not really be true for the modern customer yet the Indian markets are indeed price-sensitive. The large number of foreign companies has had to grapple with the issue of appropriate pricing for their products. Generally, they had to bring down the prices to cater to the preferences and budgets of the Indian consumer. Cosmetic and skincare packaged products manufacturers are targeting the masses with value brands cheaper by 20-30% from their existing line-up of brands. Maybelline and L'Oreal known for their premium products have had to widen their product portfolios to include value products. Several companies have adopted the mode of offering smaller pack sizes to make them more affordable and this tactics has enabled those companies to capture market share. Hindustan Lever and Revlon were the first to introduce small pack sizes.Developing innovative pricing strategies is also very important, as India is a very price sensitive market.

Distribution plays a key role in cosmetics and toiletries as they are included within the broad area of fast moving consumer goods having repeat purchases. There are several distribution formats that have developed over the years. Broadly, the distributors fall into two groups of store-based retailing and non-store retailing. Among the store-based retailers are the grocery retailers and non-grocery retailers. Grocery retailers are of a large variety among them discounters, small grocery retailers, supermarkets and hypermarkets. Non-grocery retailers are pharmacies, beauty specialists, department stores, variety stores and mass merchandisers. Non-store retailing is done through direct selling, e-commerce or e-tailing and home-shopping.

Marketing communications play an extremely important role in cosmetics and toiletries industry. Factors such as rapid growth of the industry in recent years, increasing range of cosmetics products, entry of foreign companies, tougher competition and emergence of satellite television and Internet has made marketing communication critical. Indian consumer is constantly exposed to advertisements and information of new cosmetics and personal care products. There are instances where misleading advertisements that make exaggerated claims about the capability and performance of the product have been created. Advertisements for fairness creams, which make up a large chunk of skin cream segment in India, have particularly been accused of depicting people with dark skin people as being inferior to those who are fair. According to the consumer complaints council, misleading or false advertising is most rampant in the personal care sector, accounting for more than half the total number of advertisements to have been banned by the Advertising Standard Council of India. Since 1985, the Council has been laying down the guidelines for creating a self-regulatory mechanism for ensuring ethical advertising practices.

Packaging of cosmetics has to take technical, cost and aesthetic factors into account. Among technical factors are considerations for chemical and physical computability, retention of volatiles, providing leak-proof caps and tamper-proof seals. Aesthetic factors include the appearance and presentability. Cosmetics require special attention as sometimes packaging may be a major cost factor. All these considerations have to keep in view the legal requirements for instance related to labelling.

LEADING COSMETICS AND TOILETRIES COMPANIES IN INDIA

The cosmetics and toiletries industry in India has different types of companies. As pointed out above, in the section on industry structure, there are multinational companies, large Indian companies and small and medium enterprises. Among the multinational companies there are several top global companies such as Hindustan Unilever, P&G, Colgate-Palmolive, L'Oreal, Revlon, Estee Lauder, Maybelline, Amway and Avon.

Among the multinational companies operating in the cosmetics and toiletries industry in India, Hindustan Unilever holds the top position in terms of sales revenue. It is the Indian subsidiary of Unilever whose origin goes back to the 19th century starting with producing soaps and margarine. The origins of Hindustan Unilever (HUL) in India go back to 1888 when Unilever exported Sunlight soap to India. Personal care is among its four business areas in India. Acquisition of Ponds in 1986 and Lakme in 1998 strengthened its position as a personal care business in India. Lakme India, a part of the Hindustan Unilever and founded in 1952 is a major Indian cosmetic company. It is also rated high as a trusted brand in the country. The major personal care brands of Hindustan Unilever are Lifebuoy, Lux, Close-up, Fair & Lovely, Dove Clinic Plus and Clear.

Proctor & Gamble (P&G) is among the largest multinational companies globally and among those that operate in India. P&G Global was established in 1837 and its India operations started in 1964. P&G also owns Gillette India. The company operates in three businesses of beauty and grooming, household care, and well-being. The major personal care brands of P&G are Gillette, Head & Shoulders, Olay, Oral-B, Pantene, and Wella.

Colgate – Palmolive is a global consumer products conglomerate and started in the 19th century as a small soap and candle manufacturer. It started operating in India as Colgate-Palmolive Private Limited in 1937 and started with offering dental creams and introduced tooth powders and toothbrushes in 1949. Its sells both the Colgate and Palmolive brand products. Among its major oral care brands in India are Colgate toothpastes, toothbrushes, toothpowders and mouthwashes. Personal care brands are Palmolive body wash, liquid hand wash, shave preps, skin care and hair care.

L'Oreal Paris is an international company set up in 1909. It has operating in India as L'Oreal India since 1994 and is among its fastest growing subsidiaries around the world. The businesses L'Oreal India operates in are hair care, colouring, skin care, make-up and perfume. Its major brands in consumer products are L'Oreal Paris, Garnier and Maybelline New York. In luxury products it has Kiehl's, Lancôme, Ralph Lauren, Giorgio Armani and Diesel. It also offers professional products such as Matrix and Cheryl's cosmeceuticals and active cosmetics like Vichy.

Revlon, founded in USA in 1932, is a global colour cosmetics, hair colour, beauty tools, fragrances, skincare, anti-perspirant, deodorants and beauty care products company. It started operations in India in 1994 in a joint venture with the Modi group when it launched India's first colour cosmetics. Its major brands in India are Revlon Super Lustrous, Revlon Nail Enamel, ColorStay, Street Wear, Revlon Absolute C, Flex, Charlie, Fire & Ice, and ColorSilk.

Estee Lauder started in 1946 in USA and operates in India through its 100% subsidiary ELCA Cosmetics set up in 2005. It runs stores in alliance with Shoppers' Stop and has a stake in Forests Essentials a green products company. Its major brands in India are MAC, Tommy Hilfiger, Donna Karan, Aramis and Clinique.

Maybelline New York is a global cosmetics company operating worldwide in many countries and was started in 1915. Maybelline is a major global women's make-up brand. It started operations in India by launching colour cosmetics in 1998. Its major brands are in various categories of make-up products under the Maybelline brand.

Amway Corporation is among the world's largest direct selling companies set up in 1959. It has been operating in India since 1995 and is now India's leading direct FMCG selling company. It has five businesses of nutrition and wellness, beauty, personal care, home care and great value products.The major brands are Attitude, Dynamite, Satinique and Persona.

Avon is one of the world's largest beauty product sellers and among top global brands set up in 1886. It has been operating in India since 1996. The product line of Avon includes Avon Color, ANEW, Solutions, Avon Naturals, Little Black Dress among others.

Besides the foreign companies included in the brief description above there are several others foreign companies of note such as Oriflame, Officiana Farmaceutica Italiana, Innisfree Corp, Faces Cosmetics, Shisaido, and Schwarzkopf.

There are a number of large Indian companies in the cosmetics and toiletries industry the major ones Dabur, Godrej, Marico, Emami, Himalaya Herbals, Bajaj Corp, and Jyothi Labs are briefly described in the paragraphs that follow.

Dabur India is among the largest Indian companies in the cosmetics and toiletries industry in India. It was set up in 1884 and has personal care in its business portfolio in consumer business. It operates in some countries outside India and derives one-third of its revenue from its international business. Its unique selling proposition is herbal and ayurveda products. Its major brands are Vatika, Dabur Red toothpaste, Dabur Lal Dant Manjan, Babool and Fem.

Godrej business group conglomerate set up in 1897 and has two companies related to cosmetics and toiletries industry, Godrej Consumer and Godrej Industries. Both of these companies are not exclusively into personal care and emerged in 2001 out of Godrej Soaps. Godrej Consumer is a home and personal care and FMCG company. It is a one of the leading Indian companies in soaps and hair colours. Its major brands in India are Cinthol, Godrej No. 1, Godrej Protekt, Godrej Expert, Renew and Godrej Nupur Henna,

Maricois a major Indian company in beauty and wellness businesses with food, hair care, male grooming and skin care products and sells in many countries. It emerged out of the family oil business in 1990. Its major brands in India are Parachute, Nihar Naturals, Parachute Advanced Body Lotion, Hair Care, Livon, Nihar Naturals Uttam, Set Wet and Mediker.

Emami Limited is a major Indian FMCG company in cosmetics, healthcare and baby care products. It was set up in 1974 and sells its products in many countries. Its major brands are Boroplus, Himani Navratna, Fair and Handsome, Emami Vasocare, Emami 7 Oils in One, and He Deodorant.

Himalaya Herbals started as Himalaya Drug Company in 1930 and specialises in health and cosmetics products based on ayurveda organic herbs and oils. It makes a range of products in face care, body care, body and foot care, hair care, baby care and oral care under its Himalaya Herbals brand name.

Bajaj Corp is a major Indian company in the consumer products business. It was operating as a part of the Bajaj family business group since 1953 but came in existence as Bajaj Corp in 2006. It operates mainly in hair oils and has some products in skin care. Among its major brands in India are Bajaj Kailash Parbat Thanda Tel, Bajaj Almond Drop Hair Oil, Bajaj Brahmi Amla Hair Oil, Bajaj Amla Shikakai Oil, Bajaj Jasmine Hair Oil and Baja Nomarks Range of skin care brands.

Jyothi Laboratories is a major consumer-products company in India set up in Kerala in 1983. Personal care is one of its four businesses the others being fabric care, home care and dish wash. Its major brands in personal care are Margo, Fa, and Neem Active Toothpaste.

There are several other companies of note some of which are in herbal and ayurveda products. Some of the companies are Ayur, Shahnaz Hussain, VLCC, My Fair Lady, J.L. Morrison, Paramount Cosmetics, and Lotus Herbals.

COMPETITIVE SCENARIO IN COSMETICS AND TOILETRIES INDUSTRY

The potential size and the growth of sales of cosmetics and toiletries in Indian markets has encouraged more domestic companies to invest in growth and has attracted a large number of foreign companies into India. These companies, mostly from developed economies, face stagnation in their own markets and look to markets in developing and emerging economies such as China and India to fuel their continued growth. The Indian market, for instance, is experiencing double the growth that is seen in US and Europe.

As described in the previous section, there is a large number of Indian and foreign companies vying for a share in the growing market. Competition is intense in view of the fact that the cosmetic and toiletries market is an open market and imports are allowed freely into India. Indigenous products have been doing well in the market against stiff competition from foreign products despite the latter being perceived as having better quality. Global brands face tough competition from long-entrenched domestic companies who have intimate knowledge of the local markets and decades of customer loyalty. But foreign companies are learning fast and responding with competitive moves of offering smaller-packs, adopting natural, herbal and ayurveda formulations, setting up research and development centres and generally trying to understanding the discerning Indian customer and her preferences and capacity and willingness to pay. It is evident that, with intense focus on urban markets, the competitive arena is already crowded. Moving into the suburban and rural areas requires companies to hone their sales and distribution skills, speak to their customers in a language and idiom they understand and make them identify brands and logos.

Exhibit 7 presents data pertaining to the top 20 stand alone personal care companies in India. As the figures reveal, Hindustan Unilever is far beyond the reach of competition with Lakme and Ponds in its portfolio. It has the benefit of pedigree with the company brand being familiar in India since a long time and having an extensive distribution network reaching into the nook and cranny of the vast country that India is. Dabur, Godrej and Marico make up the vanguard of domestic companies fighting out for revenue and market share. As seen from the list of companies there are a large number of foreign companies that are listed as public companies and have a presence either in certain product categories (Colgate in oral care) or products (Bajaj Corp in hair oil).

Competitive strategies range from the mass produced and mass marketed cheaper version by the domestic companies and the large number of small- and medium-scale enterprises to the differentiation strategies of premium manufacturers and marketers mostly from foreign countries. Thus, the choice is wide. Cosmetics and toiletries companies need to make a choice. On the one hand is the attraction of mass market with volumes leading to sales based on lower prices, medium quality and far reach into the vast market while on the other side is the lure of being a competitor to the best global brands and offering premium products to discerning clientele.

Overall, the competitive landscape in cosmetics and toiletries industry in India is complex and dynamic with domestic and foreign companies, product category focused and all inclusive product portfolio companies, companies using different raw materials and ingredients ranging from organic and inorganic chemicals to natural and herbal inputs. Growth potential offers motivation for both domestic and foreign companies to expand their reach into the Indian market.

Exhibit 7 Top 20 Personal Care Companies in India (Standalone) in Terms of Annual Sales

Personal care company	Year Ended	Sales (Rs crore)	Net Profit (Rs crore)	Total assets (Rs crore)
Hindustan Unilever	Mar'14	28,019.13	3,867.49	3277.05
Dabur India	Mar'14	4,870.08	672.1	1946.63
Godrej Consumer	Mar'14	4,079.84	564.84	3025.24
Marico	Mar'14	3,682.49	577.2	2381.47
Colgate	Mar'14	3,578.81	539.87	599.86
P & G	Jun'14	2,050.94	302.02	1002.90
Gillette India	Jun'14	1,749.79	51.42	643.46
Emami	Mar'14	1,705.08	398.23	945.02
Godrej Industries	Mar'14	1,453.55	119.69	2774.13
Jyothy Labs	Mar'14	1,260.18	106.11	1396.35
Bajaj Corp	Mar'14	671.73	150.44	522.07
My Fair Lady	Mar'14	110.56	0.68	n.a.
JL Morison	Mar'14	89.16	2.34	n.a.
Paramount Cosmetics	Mar'14	47.39	1.5	39.92
JHS Svendgaard	Mar'14	35.28	-28.79	91.06
GKB Ophthalmics	Mar'14	31.38	0.83	29.33
Techtran Polylenses	Mar'14	28.15	1.75	n.a.
Magna Industries	Mar'14	22.6	0.62	n.a
Ador Multiproducts	Mar'14	9.93	-1.06	n.a
Safal Herbs	Mar'14	1.16	0.01	n.a.

Source: *http://www.moneycontrol.com/stocks/data-bank/standalone/personal-care.html*. Last retrieved February 14, 2015. (n.a. – not available)

SUPPLIERS TO COSMETICS AND TOILETRIES INDUSTRY

Cosmetics and toiletries manufacture requires a large variety of raw materials, ingredients and formulations that include herbs, herbal extracts, oils, synthetic chemicals and phytochemicals. Preservatives are also a significant input for cosmetics. In each of these categories of raw material and ingredients there are hundreds of varieties that are used by the industry. For instance, chemicals may include fats and oils or esters, fatty alcohols, acids, polyethylene glycols, surfactants and anionic compounds, dialkyl ethers, paraffins, and self-emulsifying waxes.

There are also equipment manufacturers who manufacture and supply the specialised machinery used in the factories producing cosmetics and toiletries. These equipment include heaters, kettles, pulverisers, emulsifiers, and sieving, grading, and labelling equipment. Most of these suppliers are located in Gujarat, Maharashtra and Delhi regions.

ENVIRONMENTAL AND HEALTH ISSUES

Cosmetics and toiletries industry worldwide as well as in India has certain environmental and health issues that are of concern. These relate to clean air and water, waste management and animal rights. One of the most controversial environmental issues is of the use of volatile organic chemicals (VOC) such as ethyl alcohol which is used as a solvent. Propellants and several other ingredients used to make cosmetics and toiletries are also VOCs. Emissions from VOC in colognes, perfumes, toilet water, aftershaves and body splashes cause air and water pollution.

Animal testing is widely prevalent in the manufacturing units of cosmetic and toiletries companies around the world. Several large multinational companies have been using animal testing for years. Countries around the world have been taking legal action to prevent cruelty to animals in the process of manufacturing of cosmetics and toiletries. European Union implemented the Cosmetics Directive law in 2009 to ban animal testing. India too responded in 2014 to advocacy by groups such as Humane Society International, People for Animals, and People for Ethical Treatment of Animals by banning use of animal testing and import of products that are based on animal testing. This amended Drugs and Cosmetics Rules, imposing dual ban (test and import), has now put India in the league of European Union and Israel that had imposed such ban long ago. Many countries including Australia, Brazil, New Zealand, Taiwan and the United States have already introduced bills proposing national cosmetic animal test bans.

Waste management concerns have given rise to the use of recyclable packaging materials. Companies have invested in eliminating, reducing or redesigning environmentally harmful packaging materials. Health concerns such as the case of carcinogenic effects of using skin creams have been there since a long time. Cosmetics and toiletries manufacturers are responding with greater use of natural and organic materials containing ingredients like proteins and vitamins as well as botanical extracts from plants such as aloe and cucumber. Increasingly, customers value not just the smell and feel of cosmetics but also their ability to nourish and protect body and skin.

Rising environmental concerns have caused cosmetics and toiletries manufacturers to research natural and organic raw materials to use in their production processes. However, critics of the cosmetics and toiletries industry charge that the environmental actions advertised are often exaggerated, false or misleading.

REGULATION IN COSMETICS AND TOILETRIES INDUSTRY

Cosmetics and toiletries industry is subjected to regulation by the government in India. The manufacture and sale of drugs is a licensed activity under the Drugs and Cosmetics Act,1940 and the Drugs and Cosmetics Rules, 1945, administered by the ministry of health and family welfare. The licensees are required to comply with the provisions of the Act, Rules and the condition of the licence granted to them by the licensing authorities for manufacture and sale of drugs. The regulations also incorporate Drugs (Prices Control) Order, 2013; National Pharmaceuticals Pricing Policy, 2012.

The Drugs and Cosmetics Act, 1940 have elaborate provisions to check the production ofspurious and substandard drugs in the country. The Act provides elaborate definitions of theterms spurious, adulterated and misbranded drugs for the purpose of taking penal actions against the offenders. The Act covers manufacture, import, sale and distribution of cosmetics and drugs which also apply to homeopathic, *ayurveda*, *siddha* and *unani* drugs.

The Drug Controller General of India (DGCI) is the central licensing authority that has the power to issue, renew, suspend or cancel licences for import, export or manufacture of drugs, cosmetics or medical devices or permission for conducting clinical trials. The DCGI also has the sole power to issue licenses for the manufacture, sale, and export of 17 categories of drugs.

Clinical trials are defined in relation to drugs, cosmetics and medical, and involve their systematic study with the objective of determining their safety, efficacy, performance or tolerance. Organisations interested in clinical trials have to register with the Central Drug Authority and get approval from an Ethics Committee registered with it.

Labelling declarations are regulated by the Bureau of Indian Standards that sets the standards for cosmetics products. There are different specifications for different types of products such as skin creams and lipstick and the ingredients used to make them in the Indian Standards (IS) 6608:2004 and 9875:1990 respectively. There are regulations in details covering the permitted synthetic organic colours and natural organic colours and their amounts used in cosmetics to prevent excessive use of harmful materials such as arsenic, lead, heavy metals and mercury.

The union health ministry has released the draft Drugs and Cosmetics (Amendment) Bill, 2015 to amend the Drugs and Cosmetics Act, 1940 for upgradation and introduction of provisions for clinical trials and regulation of medical devices.

CHALLENGES AND PROSPECTS FOR FUTURE

A growing industry such as the cosmetics and toiletries industry in India offers exciting prospects but poses daunting challenges too. There are various challenges both to the domestic as well as foreign companies operating in India. These range from rising intensity of competition to regulation and safety requirements to be met.

Competition intensity has been on the rise making cosmetics companies respond in various ways. Domestic companies compete to protect their turf while foreign companies compete to first gain a beach head and then to make forays into the market and then hold on to their market share in the face of onslaughts from both domestic and foreign players. At present, the foreign companies such as Hindustan Unilever and Colgate-Palmolive are in the lead. They continue to leverage on their brand name, reach into the markets, and wide product portfolio. There are frequent launches of their international brands into the Indian market catering to customers willing to adopt or switch to pricey products due to their rising aspirations and disposable income. However, high import duties and packaging cost are still keeping many foreign companies away from the Indian markets. In addition, the price-conscious consumer remains an enigma as well as an irritant to the foreign companies. Domestic companies like Dabur whose product differentiation is based on natural and herbal products continue to hold their sway over the market.

To the foreign companies, understanding of Indian consumer behaviour has been a lesson in unlearning many of the conventions and practices they are used to in their home markets. For instance, skin whitening is a unique feature of the skin care segment in Indian markets. To this companies have been adding other features such as skin brightening and spot reduction to enhance the acceptability of their products.

The widening of market segmentation to include men's grooming products is a welcome development for most foreign and Indian companies. It has helped them to widen their product portfolios and add to their sales revenue. Indian men are increasingly taking to the use of more and more body sprays, perfumes and other cosmetics and toiletries. Marketing communication including advertising also nudges the men to go forward and enjoy the benefits of making themselves more handsome and appealing. With rising demand from men, the Indian market is getting enlarged and many companies are coming out with cosmetic products, especially skin care products, for men. The challenge in this gender-based segment lies in catering to the specific demands of men and boys in the suburban and rural areas.

The role of modern retailing formats to sales of cosmetics and toiletries is significant. Increasing expansion of retail chains, rising footfall, more shelf space to personal care products, Internet retailing all add up to better prospects for the cosmetics and toiletries industry. The challenge lies in adapting company's distribution channels and other marketing variables to the emerging scenario.

Technology of cosmetics preparation and adding safety features is of special concern to cosmetics and toiletries industry. So is the case with regulation that serves to protect the customer from low-quality and unsafe products. These two factors of technology and regulation are of special concern for small and medium enterprises as they have limited means to adopt sophisticated technology and face problems due to regulatory requirements. Cosmetic scientists and dermatologists are working on latest innovations and technology for the formulation, design, testing, use, and production of cosmetic products for skin, hair, and nails. New areas of research and development in dermatocosmetic vehicles, surface film, causes and measurement of skin aging, make-up products, skin healing, cosmetics in sports, cosmetotextiles, nutricosmetics, natural ingredients, cosmeceuticals are emerging as contributors to better understanding and application of science to cosmetics and toiletries. The challenge of fake and imitation products continues to bedevil the cosmetics and toiletries industry as the lure of brand name remains but the high price of these brands prevents customers from realising their aspirations.

India not only has a burgeoning market for cosmetics and toiletries but is also a major hub for exports of personal care products to many countries in West Asia and South East Asia. The major countries to which India exports are Bangladesh, China, France, Germany, Malaysia, Nepal, Pakistan, Saudi Arabia, Singapore, South Africa, Turkey, UAE, and USA. Export of herbal and ayurveda products also has demand in Europe and US. Non-resident Indians constitute a big market for Indian cosmetics and toiletries firms in some regions of the world.

There are prospects for emergence of new specialised segments such as halal (halal means lawful in Arabic) products. Products that have vegetarian ingredients and have no meat and alcohol ingredients are considered as halal cosmetics and toiletry products. These products appeal to Muslims and other communities who are strict vegetarians like the Jains. Many products from companies such as Dabur and Himalaya Herbals already are halal products as they are vegetarian. This indicates potential for halal-certified cosmetics and toiletries market segment in India. Prohibition on animal testing and ban on animal fat based products tend also support the demand for halal products. Iba Halal Care, India's first halal cosmetics brand, was launched in 2014 in Ahmedabad by Ecotrail Personal Care, a company headed by two Jain women. This could be a trend-setter in the emergence of a new market segment looking to be catered by the major players.

Overall, cosmetics and toiletries industry in India,which has witnessed a strong growth in the last few years, has emerged as one of the markets holding immense growth potential. New product launches catering to consumers' growing requirements will fuel growth in the industry, for which the future outlook seems exceptionally bright. Indian cosmetics and toiletries industry holds promising growth prospects for both existing and new players. Consumers are increasingly shifting towards 'natural' and 'herbal' cosmetic products as they are associated with bio-active ingredients and safe for human skin. Women are spending more on cosmetics as they are actively earning and spending money on grooming themselves. Men are joining enthusiastically in making themselves more handsome. Besides, rural India is also showing its willingness to look attractive. It is for the cosmetics and toiletries industry to take up the challenges and cater to the demand.

Notes and References

1. "A makeover for India's cosmetics industry," *The National (UAE)*, April 22, 2012, *http://www.thenational.ae/business/industry-insights/retail/a-makeover-for-indias-cosmetics-industry*. Last retrieved February 10, 2015.
2. "All Decked Up," *Business Today*, Sept 14, 2014 at *http://businesstoday.intoday.in/story/vlcc-clsa-everstone-kpmg-ac-nielsen-report/1/209609.html*. Last retrieved February 10, 2015.
3. An interesting account of the history of cosmetics is available at *http://www.historyofcosmetics.net/*. Last retrieved February 5, 2015.
4. André O. Barel, Marc Paye, Howard I. Maibach, ed., *Handbook of Cosmetic Science and Technology*, 4th ed. (London, UK: CRC Press, 2014).
5. "Beauty product makers pin hopes on more attractive pricing," *LiveMint*, May 27, 2014 at *http://www.livemint.com/Industry/V3PmwHKo28BZEOl3n5EkJJ/Beauty-product-makers-pin-hopes-on-more-attractive-pricing.html?utm_source=copy*. Last retrieved February 16, 2015.
6. *Fourth All-India Survey of Micro, Small and Medium Enterprises 2006-2007*, Ministry of Micro, Small and Medium Enterprises, Government of India at *http://164.100.44.182/iip/Censuses/censuses.htm*. Last retrieved February 16, 2015.
7. "History of beauty," *Working Knowledge*, Harvard Business School, April 19, 2010, at *http://hbswk.hbs.edu/item/6263.html*. Last retrieved February 10, 2015.
8. "India's cosmetics industry may treble by 2020," *The Times of India*, December 24, 2013 at *http://timesofindia.indiatimes.com/life-style/beauty/Indias-cosmetics-industry-may-treble-by-2020/articleshow/27844855.cms*. Last retrieved February 10, 2015.
9. "Misleading ads most rampant in India personal care sector," *Cosmetics Design Asia.com*, 6 Aug 2013 at *http://www.cosmeticsdesign-asia.com/Regulation-Safety/Misleading-ads-most-rampant-in-India-personal-care-sector*. Last retrieved February 16, 2015.
10. "Mumbai to get first cosmetics cluster," *Business Standard*, March 27, 2007 at *http://www.business-standard.com/article/economy-policy/mumbai-to-get-first-cosmetics-cluster-107032701084_1.html*. Last retrieved February 16, 2015.
11. "The beauty business: Pots of promise," *The Economist*, May 22, 2003 *http://www.economist.com/node/1795852*. Last Retreived February 10, 2015.
12. Rebecca Gelles, "Fair and Lovely: Standards of Beauty, Globalization, and the Modern Indian Woman" (2011). *Independent Study Project (ISP) Collection*. Paper 1145. *http://digitalcollections.sit.edu/isp_collection/1145*. Last retrieved February 10, 2015.
13. S.K. Chaudhri and N.K. Jain,"History of cosmetics,"*Asian J Pharm*3 (2009): 164-7. *http://www.asiapharmaceutics.info/text.asp?2009/3/3/164/56292*Last retrieved February 5, 2015.
14. Virendra S. Ligade: *Cosmeceuticals: Prospects, Perception and Regulatory Implications in Indian Context,* Ph.D. thesis, Manipal University, Manipal, December 2011.

Case 2

Harvest Gold: Delhi's No. 1 Bread*

It was 10 in the morning of a hot day in May 2010. The heat wave of Delhi was driving people mad with no signs of rain, and adding fuel to the fire was a terrible traffic jam ahead. Taab Siddiqui had to catch hold of her team to assign some work to them as she would be away for a couple of weeks from May 24, 2010 onwards. She had planned a trip to South Africa, after having a really hectic closing of the financial year.

While moving towards the corporate office at Mahipalpur (Extension), perhaps the most congested area of South Delhi near the airport, her car crossed the BRT corridor near Chirag Delhi flyover and stopped at the traffic signal. While crossing the signal, fiddling with her blackberry phone, she looked out of the window and started wondering what the green colour meant to her as a business woman and to Delhi as a city.

During that time in Delhi, the government was giving a lot of emphasis on protecting the environment and saving the ecosystem by planting trees and adopting practices to create a green atmosphere. The major reasons were the forthcoming Commonwealth Games and the increasing pollution in the city. Small hoardings were installed across the city with slogans such as "GREEN DELHI CLEAN DELHI", "GO GREEN" etc. Marketers were trying to sell green marketing concepts, finding innovative ways to show their concern for the environment.

But for Taab Siddiqui, green colour answered many of her critics' queries – there were persistent mails from people who thought that her soft bread contained egg. The fact was that egg was never used as an ingredient in the Harvest Gold bread and to highlight the vegetarian character of its products, the company started printing a green mark on the packing.

She had to reach the office by 11 am as she had invited Equus Red Cell, the Ad shop, for launching their website. This was an important meeting for building the brand image of the company. Moreover, she was planning to go national and hence to be on par with the other competitors, internet presence and social networking were a must. As her car drove into the parking area, she heaved a sigh of relief that she could escape from the peak traffic and was still running ahead of her schedule; she could thus afford to spend a couple of minutes with her staff as she had to inform them about a new product. She walked in and called everybody in the Conference Room to announce the 'breaking news,' particularly to the male employees. "I have a good piece of news to share with you; we are entering into a challenging segment of semi-cooked *rotis* in certain parts of Delhi to start with! Now all men should stop pestering their mothers and wives to make *garam rotis*[1] for them," she jokingly warned them. The launching of this product was quite close to her heart because she personally hated making *rotis* during her earlier days. After getting back from her tour, she had thought of giving a green signal to this daring product of her company.

* This case study has been prepared by Noria Farooqui, Assistant Professor, Dept of Management, Hamdard University, Jamia, Delhi. It is taken from *Vikalpa*, **37**(2) April-June 2012. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of management situation. Reprinted by permission of *Vikalpa*.

Piyush, the executive assistant to the lady, standing behind her, was quite apprehensive about the product. "Is this *roti* business really going to work? There can be other ways of empowering the Delhi women. We all reach home late and the least that we would want is a freshly cooked meal with fresh chapatis," he thought.

It was honestly a challenging step of experimenting with the sensitive Indian consumer, and that too men. Previous records showed that this venture was quite popular in the West but in India it was still a question of value system for every household. But that was what Harvest Gold was known for: "Challenging the Challenges." If the company failed then what would happen? Perhaps they would stop this venture and move ahead with some learning as this would not be the first time they were failing. A couple of years ago, they had tried selling mineral water but that had not gone well with the people. The business was not a success and they had to promptly shut it down. The problem lay in the logistics. Another issue for the company was the implementation of CNG norms[2] — along with its other contemporaries, it was constantly bugged by the Delhi Government officials who wanted them to have CNG fitted trucks to carry their products, and these companies had no choice but to follow rules. Their concern was that, how on earth would their products reach the breakfast tables of the customers on time if the trucks had to stand in long queues for CNG refueling, which was inevitable due to limited CNG stations. What would happen to the *Dilliwallahs*"[3] who wanted to have only Harvest Gold? Managing the current distribution system was really a hard task for them. For that matter it was a crucial issue even for other food companies like Mother Dairy and Perfect Bread because their business too depended on good logistics.

The most important issue for the company was expanding in other parts of the country and managing the distribution of fresh bread in such a way that her customers got the product at the right time and were not attracted to the alternate options offered by the retailers. Now the task ahead was to develop a business model for gaining national presence—it could be franchising or contract manufacturing.

Harvesting gold in the Delhi market during the nineties, but strapped by the investment ceiling of Rs. 30 million in the reserved sector of bread manufacturing, Harvest Gold realized that the future lay in franchising its brand and technology across the country.

Taab Siddiqui's strong conviction for outstanding quality had brought laurels to the organization, which she did not want to lose just by expanding the business. In fact the organization faced a major challenge when it started outsourcing the jobs. Their major objective was to fulfill the need for a good quality product involving low cost techniques that the customers could trust. (See Appendix I for cost control methods). What differentiated them from others was quality, and their endeavour was to follow it 365 days.

HARVEST GOLD: ORIGINS

Adil Hassan was a chemical engineer from IIT Delhi, who switched to making bread with an investment of Rs. 10 million. After his marriage with Taab Siddiqui, an MBA from Aligarh Muslim University, in 1988, they had shifted to Singapore but returned to India in 1992 to make their living in Delhi. They hit upon the idea of bread-making when they failed to find fresh and decent bread in Delhi. So, they decided to make bread and the rest, as they said, was history.

Adil Hassan and Taab Siddiqui commissioned their plant as Harvest Gold Foods India Pvt. Ltd. and commenced production in June 1993, at its state-of-the-art facility at Bhiwadi, Rajasthan (installed capacity: 75,000 loaves of 800 gm each a day) with a premium range of Harvest Gold white bread in 400 gm (Price Rs. 7 a loaf) and 800 gm (Rs. 13). The product was an instant hit with a Rs. 400 million turnover in just five years. They further diversified into related products like hamburger buns, pizza base, etc.

Earlier there was a domination of two manufacturers—Modern and Britannia. Demand was high and supply inadequate; hence whatever was produced was sold. Bread was sold in wax papers. People used to stand in queue for hours for delivery vans to get their loaves. Such was the dominance of Britannia and Modern breads. Other competitors like Taaza and Bakemans were not so popular. Since the national players were

Britannia and Modern (now limited to a few parts of the country), every state had its own local brand. Short shelf-life of bread made it difficult for big players to distribute bread at distant places. From 1995-96 up to 1998-99, Britannia bread market share witnessed a fall due to the stiff competition from Modern Foods. Still Britannia could manage to regain its shape due to the takeover of Modern Foods and the time spent in its restructuring. Again that could not last long and Britannia faced some problem in its distribution of bread. This particular crisis was the reason behind Harvest Gold's success as the market leaders were fighting with their destinies.

Harvest Gold did not have any distributor for its bread at that time; so, it approached the distributors of Britannia and Modern. These distributors agreed to keep a stock of Harvest Gold bread and sell it whenever there was a demand for it. It also approached the Nirulas for keeping its bread on their counters. But everything took a turn when customer response turned out to be overwhelming. Within a span of two years, there was no looking back for them. Harvest Gold was 17 years old with a turnover of more than Rs. 1.2 billion with one plant, one city, and one product. Its only plant was in Bhiwadi from where all its products were distributed. What was most remarkable was the company's distribution system—the trucks were painted with Harvest Gold's name and logo — a true example of mobile branding. This was a case of a local player taking on a big brand and emerging as the market leader within a span of just one to two years of launch. Other than the normal white bread, it also made sandwich bread, Bombay pav, burger bun, brown bread, kulcha, pizza base, sweet bun and milk rusk, daliya (Porridge) bread, garlic bread, and multi-grain bread and sold its own *atta* (wheat flour). Their label accounted for 80 per cent of the bread consumed in Delhi and NCR and headed a Rs. 1.2 billion (and growing) business that employed 800 people and supplied 2,50,000 loaves per day. Each 380 gm loaf was priced at Rs. 11 and 800 gms at Rs. 20 in Delhi. For other states, there was an addition of Rs. 1 or 2 per loaf.

INDUSTRY OVERVIEW

The Indian bakery market was valued at Rs. 32.95 billion in the year 2008 and was expected to reach Rs. 43.08 billion by 2012. The market was split into rural (22.5 %) and urban (77.5%). The two major bakery products, bread and biscuits, held about 82 per cent of the market share.[4] The per capita consumption of bread in India was only around 1.5 kg to 1.75 kg in various zones.

The consumption pattern in the four zones of India was 27 per cent in the North, 32 per cent in the South, 23 per cent in the East, and 18 per cent in the West.[5]

Size of the Indian Bread Industry

The four million tonne bread industry was growing at the rate of 6 per cent and was expected to grow at the same rate in the medium term. However, the organized sector was growing at the rate of 8 per cent. In 2006-07, the total production of the organized sector was estimated at 1.8 million tonnes.[6]

The bread industry consisted of organized and unorganized sectors, contributing around 45 per cent and 55 per cent of the total bread production respectively. The organized sector consisted of around 1,800 small scale bread manufactures around the country, besides 25 medium scale manufacturers and 2 large scale industries which were permitted to continue on the basis of their installed capacity in 1976 when the Government of India reserved bread industry for the small sector.[7]

The unorganized sector including the neighbourhood bakeries, etc., consisted of an estimated 75,000 bread bakers mostly located in the residential areas of cities and towns. Thirty-five per cent of the total production came from the small scale sector with about 1,500-1,800 units in operation.

Operations

Procurement at Harvest Gold The flour was procured by the Purchase Department at Bhiwadi through the millers and suppliers who first sent the flour samples to the Quality Control (Standards) Department, where these samples were tested on various quality parameters. If a sample met the required specification, it was accepted. The rates were then decided by the Purchase Department and finally the order was placed. The company maintained the suppliers' profiles and the orders were placed only when required.

Price The price of wheat flour (See Appendix 2) was determined on the basis of the price of wheat, atta, suji, and bran prevailing in the market on a day-to-day basis. *Maida*, *atta*, bran, and suji were made out of wheat in the ratio of 55:15:25:5. At Harvest Gold, the formula used for calculating wheat flour rate was:

Wheat flour rate/kg = wheat rate/quintal – (atta rate/kg.* 0.15 + suji rate/kg* 0.05 + bran rate/kg.*0.25)/55

The wheat flour was tested on various quality parameters before procurement. These parameters played a very important role in deciding the products to be prepared, e.g., bread-making required strong gluten, more than 12 per cent protein, hard wheat, etc. Following quality parameters were required to be satisfied:

Wheat Non-grade Data

Moisture content: The acceptable limit of moisture content was less than 12 per cent. This parameter was very important for storing wheat in the godowns/silos. The moisture content depended on the weather conditions at the time of harvesting. Higher moisture content adversely affected the keeping quality of wheat.

Protein content: This is an important parameter for making different products of wheat. For making good quality bread, chapati, and biscuits, the protein requirement was greater than 12, 10-12, and less than 11 per cent respectively.

Sedimentation value: This parameter indicated gluten strength. For making good quality bread, chapati and biscuits, the requirements were strong, medium-strong, and weak gluten respectively.

Hardness: This was an important parameter for product development as soft, medium-hard, and hard wheat was required for biscuits, chapatis, and bread respectively.

Alkaline water retention capacity (AWRC): It was an important parameter for evaluating the quality of biscuit and had a negative correlation. A value of less than 60 per cent was considered ideal for making good quality biscuits.

Flour Data

Extraction rate: Milling industry was interested in higher extraction rate (flour recovery). An extraction rate of 55 per cent was generally preferred.

Dough Properties

Alveo graph parameters: The alveo graph was used mainly to evaluate bread-making potential of wheat flour. The four alveo graph parameters were:

P – Peak (mm)
L – Elasticity (mm)
P/L – Ratio of peak and elasticity
W – Overall resistance

The flour with high L and low P was generally weak whereas the flour with low L and high P was over-stable and thus neither of them was considered suitable for good bread-making.

Quality Evaluation

Loaf volume and bread quality: For the evaluation of bread quality, parameters like loaf volume, stickiness, appearance, crust colour, crum colour, texture, taste, and aroma were considered and among all these parameters, loaf volume was considered the most important and was given maximum weightage while evaluating bread quality. The quality of flour for bread-making was tested not only in the labs but also on the floor, by making bread out of the various samples sent by the vendors. For gaining national presence, the biggest challenge ahead for them was to standardize the different flour quality available in different states of the country.

Biscuit quality: For evaluating the quality of biscuits, spread factor was calculated by dividing the diameter of the biscuit with its thickness. The quality was considered poor, average, good, very good, and excellent when the spread factors were <6.0, 6.1-7.0, 7.1-8.0, 8.1-9.0 and >9 respectively. Like bread, there was scope of improvement even in the quality of biscuits, which was required for taking them to the international level. Soft wheat flour with weak gluten strength and low protein content were the basic quality requirements for making good quality biscuits.

Quality Assurance

Quality had always been the central force for any business proposition. Harvest Gold had adopted a strict quality policy in its unit, which was well monitored by the Quality Control & Assurance (QC&A) Department. The quality was stringently checked at different levels of production, which included:

- Primary inspection of raw materials
- Quality assurance during work-in-process
- Quality check of finished material.

Besides this, the Quality Assurance Department paid meticulous attention to post-production handling and packaging of their products to improve bread's shelf-life. Due to the company's adherence to the quality of products, it was accredited by the prestigious ISO certificate. Raw material was procured from various vendors who had to follow strict norms and adhere to various standards of quality. The company did random sampling of raw materials and checked samples in its own R&D lab and stored in dry cool and sanitized stores in its own facility.

Commercial bread-making was held to strict government guidelines regarding food production. Further, consumer preferences compelled bread producers to maintain a high quality standard of appearance, texture, and flavour. Therefore, quality checks were performed at each step of the production process (Appendix 3). Producers employed a variety of taste tests, chemical analyses, and visual observation to ensure quality.[8]

Moisture content was particularly critical. A ratio of 12 to 14 per cent was ideal for the prevention of bacteria growth. However, freshly baked breads had moisture content as high as 40 per cent. Therefore it was imperative that the bakery plants be kept scrupulously clean. The use of fungicides and ultraviolet light were two popular practices. Most of the commodities and raw material had seasonal cycle of prices as they peaked and fell in intervals. Hence they could book maximum amount of their requirement when prices were low.[9]

PACKAGING AT HARVEST GOLD

Bread was generally a highly perishable item, having a shelf-life of a maximum of 72 hours in a tropical country like India. The government had made it mandatory to stamp the date and time of manufacture and expiry on the packet. Therefore, once the bread was baked and packed, any baker would make it a point to see that it reached the market at the earliest.[10] The people at Harvest Gold thought of grabbing the opportunity of introducing an innovative packaging mechanism for their product. It thus pioneered in introducing transparent sheets where consumer could have a look at the product without opening the pack. At a time when the competitors were using wax paper for packaging, Harvest Gold started using a clear, cellophane wrap with a signature red base. Then, the expected happened — tangy dollops of plagiarism pervaded the bread market. Soon, shop shelves were stocked with cellophane-wrapped bread-brands with logos, packaging, and even names having the same touch and feel as Harvest Gold. Taab Siddiqui and her team were confident that they still did not taste like their bread. But they felt the need to create a brand in the minds of the consumers. By the end of 1997, it became clear that to stand apart from the nationwide bin of wannabes — Honey Dew Gold (Delhi), Taaza Gold (Faridabad), Golden Harvest (Calcutta), Spenser-Gold (Goa), Everest Gold (Chandigarh), etc. — Harvest Gold would have to knead out a unique brand strategy for generating consumer pull.

MARKETING

Some ad practitioners were of the view that wit must come at a later stage, when the brand was already established, and was seeking to build a connection with the consumer. But in the case of Harvest Gold bread, the company and the advertising agency, Equus Red Cell, decided to go the funny route right from the start—with a tone and language the consumer would understand, and capturing the issues they could relate to. Swapan Seth, co-CEO at Equus, who had handled the account since 1997, was of the view that selling a bread brand on the basis of milk content or preparation techniques would be boring and silly.

The campaign comprised weekly 80cc and 60cc print ads that were similar in look and feel, and used a limerick to parody or comment on an everyday issue, be it Bill Gates or the Delhi winter. The advertisement even made a dig at itself: *"Bakwaas Advertising. First Class Bread."*[11] Humour worked in this case because it used the lowest common denominator; so, it was almost like the voice of the consumer (see Annexure).

Using humour for a brand—even a low-cost, low-involvement one—was risky. But, at the heart of great brands lay the ability to take risks—and luck favours only the brave. The brand had over 92 per cent share of the organized market for bread in Delhi, and was a cult brand. Still, it took great courage and tremendous trust in the agency on the part of the client to back a campaign that took a risk.[12]

In 1998, on a Friday, when the premium white bread manufacturer Harvest Gold Foods India Private limited unwrapped the first of its year-long, Rs. 2.7 million advertising campaign, its aim was clear: the Delhi-based brand was determined to become the toast of the country's bread basket. With the sales restricted to Delhi and its environs, growth in the nineties had risen by a hearty 65 to 70 per cent a year, and the sales were projected to touch a buttery Rs. 500 million in 1997-98.[13]

Realizing that it was often the domestic help who was duped into buying the cheaper Harvest Gold duplicates, the company had to ensure that the consumers began demanding Harvest Gold by name.

With the company hoping to earn a good part of its bread-and-butter from Harvest Gold franchisees across the country, the brand needed to establish a communication platform which would spread smoothly from local to national coverage. The media buying was ingenious too. During that time, the brand was distributed only in Delhi and its environs. Therefore, the Harvest Gold advertisement appeared in a fixed position, on the back page of *Delhi Times*, and only on Friday's—when the readership peaked—for a full 52 weeks (see Annexure).

Keeping in mind the cost-effectiveness of the advertisement, Suhel Seth, CEO, Equus believed that in any parity-driven commodity, communication was a key discriminator. Both the agency and the client wanted the bread to come alive in a funny, exciting, smart, and sexy manner. Behind their back, people used to comment on their ads being very silly. Many, however, thought of taking a clue from them and prepare funny ad content. They would thus have ads such as "Milk content *ki*[14] no information, softness *ka*[15] no mention, I said "*Chaddo na, bread khao.*[16] Why create tension?" But when you go to pick up bread, *ik gaal* must be *saaf*[17] and clear That Harvest Gold is what you buy. Not just any bread, my dear."

Harvest Gold was totally focused on quality. It mentioned the product details on each of its bread packets—"Harvest Gold Industries Private Limited proudly present, HARVEST GOLD, a fine quality white bread baked in a state-of-the-art plant with quality testing conforming to the American Institute of

Baking standards. Harvest Gold is brought to you in an international quality pack to ensure freshness and hygiene."(See Appendix 4 for food safety and standards.) Even their customer care number and email ID were mentioned on the packets of their product to entertain feedback from the customers.

DISTRIBUTION

The marketing system in the bread industry was based on a strong retail-wholesale distribution network and being a highly price-sensitive low-margin food product with very short shelf-life (about four days on an average) and the resultant return of more than 10 per cent of dispatches, the industry was witnessing a very competitive environment with the result that *inter alia* the consumer's choice and preferences played an important role in the sales pattern of different brands of bread in the market.[18]

Harvest Gold's success largely depended on its excellent distribution system enabling fresh delivery of various items. Its competitive advantage lay in owning the distribution system and continuous upgrading with innovation and latest technologies. The best thing about Harvest Gold was its small size which facilitated smooth distribution of its products. However, for having national presence, there was no option other than outsourcing of the distribution.

The owners of Harvest Gold recalled the days when they had to sell the breads on the traffic signals to generate an awareness besides increasing sales. Those were the toughest days of their lives—not in monetary terms but in terms of having a burning desire to become a successful entrepreneur.

The couple had recently returned from an extensive world tour where they had been looking for the latest professional practices in distribution of fast-moving consumer goods with emphasis on bakeries. Many millions of Rupees-worth of cost-saving opportunities and service improvements were identified—e.g., attractive schemes for big retailers, capturing the shelves of modern trade channels, improving on management information system, excellent demand forecasting and special delivery vehicles on different occasions, sticking with the policy of cash on delivery (COD) for big retailers and three to four days credit policy for small retailers.

A long-term strategy was created that affected everything in the supply chain from the profitability of individual products, through breadroom operations, even to examining running costs of individual delivery vehicles. There was a firm opinion in the industry that distribution was a major driver of manufacturing efficiency and once a person understood its role in fresh food he could not afford to get it wrong.

Generally there are two peak slots when bread is distributed, morning and evening. Harvest Gold used to dispatch hundreds of thousands of loaves daily to hundreds of sales outlet. One was the morning sales slot, i.e., Harvest gold dispatched hundreds of thousands of loaves daily to several thousand sales outlets with each outlet having two sales peaks—one was the morning sales slot from eight till ten and the other was the evening customers' slot from four till seven. Breads were quickly and safely loaded defective breads used to immediately get either exchanged or returned.

While holding MDP's and workshops, Harvest Gold realized and identified various issues that could be addressed so as to make the strategy successful. They began by holding as well as participating in a couple of supply-chain workshops to identify problems and issues, e.g.,

- Stock item profitability
- Fleet maintenance approach
- Costs of transferring product between plants to consolidate orders
- Cost to serve various customers and channels
- Distribution channels such as retail, industrial, food services
- Profitability of different customer types.

Analysis of the different customer types and the relative distribution issues associated with each helped them articulate the cost-to-serve improvement opportunities.

So, while the supply chain of other products could plan in terms of weeks and months, a big baker had to think in terms of hours and minutes. This task was compounded by the large reverse logistics effort required due to the fact that bread was generally sold to major supermarkets on a sale or return basis and because it was sold in crates that stacked on to dollies requiring return to the bakery. Empty shelves meant lower sales; so, grocery category managers always aimed to have their shelves fully stocked during peak demand periods—an interesting problem for merchandisers when one remembered that bread demand was compressed into these two daily time slots. So, supplying enough bread to fill shelves was a critical tactic in the overall strategy.[19]

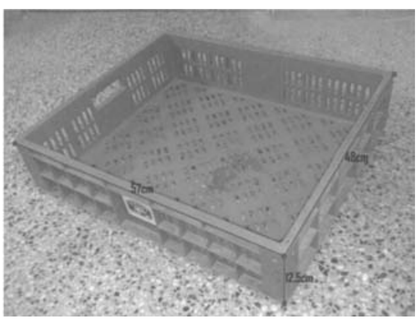
Handling and Logistics

Logistics played a key role in the bread industry, as a proper logistic support enabled the producer to transport his products in the market at the right time. A producer had to see that all the packs were stacked in solid containers—steel or plastic crates—in order to avoid compression of bread (reduction of volume) during transportation.[20]

In case of bulk transport, Harvest Gold made use of trucks and tempos, and in case of smaller deliveries to the retail shops, the producer used smaller tempos and bicycles. A producer also had to make sure that all vehicles were thermal proof so that the bread could be maintained at a lower temperature. All the products were transported preferably in the night or early morning in order to avoid heat and humidity and also traffic delays. Even after the product reached the retail outlets, the producer had to educate the retailer to keep the bread away from direct sunlight. Otherwise the bread would start sweating and result in fungus formation, reduction in weight due to loss of moisture, change in the texture, etc.[21]

The Bhiwadi plant was the only plant and the product was distributed from there. What was most remarkable was the company's distribution system where the trucks were painted with Harvest Gold's name, thus also serving the purpose of mobile branding. The products were loaded in these trucks and unloaded at various depots in Delhi. From the depots, the products were carried by the outsourced trucks to the various corners of the city as per the demand of the customers. The retailers of the suburbs in Delhi demanded 400 gms of the white bread the most whereas the retailers in the posh localities like Vasant Vihar, Vasant Kunj, Greater Kailash, Defence Colony, and demanded different variants of Harvest Gold bread. The mode of revenue collection was cash on delivery from the retailers by these outsourced truckmen. In a very few instances, they gave the product on credit and that too only for a couple of days.

The breads were packed in plastic crates each of which was around 1–2 kgs; each person carried 3–4 such crates on his shoulder. While unloading, the person freely removed the load which on impact with the ground caused serious cracks after several falls. One crate full of breads weighed around 6–7 kgs; four crates weighed around 24–28 kgs and would cost around Rs 200. Breakages were common at the edges.



Around 50,000–60,000 crates were circulated everyday in the market in a cycle. Breads needed to be delivered within 3–4 hours. Therefore, crates were handled roughly. They were stacked inside a truck and transported to various markets. Normally, no empty space was left in the trucks. Usually one person on the truck (3.5–4 ft. high) handed over the crates to two persons on the ground who carried them to the shops on the shoulder. These crates were dropped from the shoulders (4–4.5 ft. high) usually on the concrete floor and hence the impact damaged the crates.

The company organized a design competition among the students of the Indian Institute of Technology (Delhi) to develop a creative technology innovation so that the crate could be carried at a lower height thus reducing the impact level, while not compromising on the quantities carried and also increase the trays' resistance to cracking on falling on the ground. A presentation/video with reference to the design statement was shown to the participants who were told that the original crate must remain the same.

COMPETITORS

Among major competitors of Harvest Gold was the company manufacturing Premium bread under the brand name "PERFECT" which figured in most of the Premium stores and virtually all the 5 Star joints in Delhi. It had started its business in 1993 with a small plant, Seeta Foods Pvt. Ltd., located in a small industrial town, Hathin, Faridabad with a very minimal turnover. In a span of just a few years, by adding on two most modern plants, LR Foods (established in 1997) and Harpreet Foods Pvt. Ltd. (established in 2000) at Faridabad, and further coming up with Perfect Bake in 2006, LR Foods Pvt. Ltd. had garnered 45 per cent of the market share of Premium Bread in Delhi.[22] They covered the National Capital Region including Gurgaon, Faridabad, Noida, DLF and all other adjoining cities and were also operational in Agra, Ferozabad, Bharatpur, and Alwar district in Rajasthan. Its competitor, Britannia, had its major contribution to its revenue from biscuits. So, bread marketing had taken a backseat; in fact there were lot of complaints from people who were not able to get fresh bread from Britannia.

Another competitor was Modern Foods. In West Delhi's busy Lawrence Road industrial area lay the remnants of a shattered divestment dream. Bleary-eyed guards—there had been no power for the last two days—opened the rusted iron gates of what was once the Modern Food Industries Limited (MFIL), but just to say that the leading bread manufacturer had downed its shutters. Modern Foods, which once had a 40 per cent share in India's bread market, no longer dominated the show. Inside, the factory doors remained sealed as pigeons fluttered in and out of empty dark halls that had been stripped long ago—mute testimony to a well-publicized takeover of the first public sector company in India in 2000 by the Hindustan Lever Limited (now Hindustan Unilever Limited), also its only bread maker.

But if the plant was defunct, strangely enough, Modern Breads was still present on breakfast tables across the country. The companies MFIL, merged with Hindustan Unilever Limited (HUL) in September 2006 and all MFIL employees, now 392 from an initial strength of 2042, were now HUL employees. In short, high costs and an unmanageable work force in a low-margin business had made MFIL an indigestible deal for HUL. What turned HUL away from Modern Bread was that the brand had no distribution network of its own; moreover, it lacked quality standards and grappled with trade union troubles and high production costs. Still worse was the work ethic and culture which did not synchronize well with that in HUL. Though HUL created a distribution network and adopted a franchisee route to reach markets with standardized quality norms and made an operating profit in 2002 (and a 19% growth in sales), it was rocked in 2003 because of political reasons.

The Modern bread brand was available in a wide variety of white sandwich bread, brown bread, *Atta* (wheat flour) Shakti Bread and Modern 7 Must Multigrain Bread in more than 50 towns across the country, including major metros. "Modern Foods is contributing to both the top-line and bottomline of our foods business," said Prasad Pradhan, a spokesperson for HUL. Insiders say, however, that HUL was struggling with the Modern brand. From 13 units, including those in key markets of Delhi, Jaipur, Indore, Ranchi, Kochi, Kanpur, Kolkata and Chandigarh, it now had only six operational units and brand franchisee arrangements with others across the country.[23]

Major Brands

The two major players, Britannia and Modern Foods, had a market share of 10-12 per cent and 7-8 per cent respectively in 1998. Apart from these two, there were a few large regional players such as Spencers in South India, Vibbs in Maharashtra, Kitty and Bonn in Punjab, 365 days in Delhi NCR, Haryana, etc., and Harvest Gold and Perfect Bread in Delhi and NCR.[24]

New Variants of Bread

For some time, bread was thought to be fattening, and many people avoided it in their daily diet. Studies showed, however, that it was toppings such as butter that accounted for most of the fat-induced calories. In fact, bread was an excellent source of low-fat, complex carbohydrates. The renewed interest in bread had led to consumers' taste for a variety of bread types. No longer was sliced white bread the norm. Grocery store shelves now offered myriad wheat breads and multi-grain breads.[25]

ISSUES AND FUTURE CHALLENGES

Harvest Gold was known in the city as well as in NCR for its USP in smart marketing and quality control, its responsiveness to changing market and high class machinery and its straight competition with Britannia, Modern, and Perfect Bread in Delhi together with some local players. Having its own distribution was a real value addition and its success wholly depended on it. In this way the company was accountable to its customers in addition to keeping strict control on the channel members. The customer base was also wide and carried names like Reliance, IIT Delhi, and Private Hospitals, etc. The company was quite sure of making the product available in the morning on the breakfast tables of its customers. The future task ahead however was to develop a business model for national presence (market expansion) and it could involve franchising and contract manufacturing and stringent cost-cutting measures without diluting the quality and compromising on standards.

The companies which had greater geographical presence or were multinationals could achieve better price by buying bigger volumes instead of buying for individual units. Central buying policies were recommended for such units. Bulk buying resulted in annual contracts for a period of twelve months with prices being finalized for the entire period.[26]

Even a company like HUL known for excellent distribution could not help Modern bread. This was the challenge Harvest Gold faced in going national. Also it had to be very careful in designing its business models before launching the bread in the country with different cultures and languages and above all different tastes. Bread-making was its core competency which it did not want to deviate from. They were totally focused on making good quality bread and increasing their size by going national only by selling bread and its variants.

The promotion gathered lot of attention from the people as many waited for the advertisement in *Delhi Times Magazine* on every Friday. Even kids in the age group of 3-4 years could very well recognize the bread advertisement because of its vibrant colour and style. Harvest Gold had become a generic name for bread in almost every household of Delhi and NCR. Moreover, they were holding meetings with their advertising agency, Equus Red Cell, for launching their website, a common platform used for communication these days. Just the other day, one of her vendors had asked for the business card and was taken aback when he did not see any website address on the card. They had to launch a creative fresh looking website as this was the trend and need of the hour. As far as CNG fitted trucks were concerned, there was still some time in the implementation of the strictures. So, they could rest for a while. It was possible that it might not even happen. So, they had to sit with their fingers crossed.

Exhibit 1 Cost Cutting Measures[27]

The competitive world corporate houses and businesses were struggling to maintain profits and healthy bottom lines. The costs of production, fuel, raw material, and human resources were rising each year. These developments have prompted people to look for cost reduction ideas and methods.

Those who had opted for focused cost reduction strategies survived; those who could not manage perished. During economic downturn, it became more important to make cost reduction programme a major initiative in the industry. Companies were finding it difficult to retain people and were laying people off which was unprecedented in the recent history of industrial recession. Companies had to develop their own cost reduction programme for saving without cutting jobs.[28]

Economic slowdown and low spending by consumer had forced big bakery manufacturers to implement cost reduction strategies in their plants and operations. They were ongoing rather than knee-jerk programmes. One had to continuously strive for innovation, modification, or automation for savings in factory operations.

Substantial cost savings could be achieved in the following areas:

Procurement or Purchasing

Procurement involved acquiring products, services, and works from vendors or internal source. Sourcing was the process of identifying, evaluating, and negotiating with suppliers and service providers. This included the entire vendor selection process as well as contract management. It opened doors to a rich supply of raw materials, facilities, and labours at lower prices, thus reducing costs and increasing competitiveness in markets around the world. The presence of foreign-produced finished manufactures compels domestic industries to be innovative and efficient, both of which are keys to profitability and longevity.

Raw material comprises around 60-65 per cent of the product cost. Hence savings in raw material purchase can add on to profits. The main raw materials are flour, fat, sugar, additives. Apart from these, engineering items and packaging materials are also required. Some of the cost-saving ideas include bulk buying, forward buying, sales tax exemption, excise duty free procurement, reverse auction, imports or sourcing from across the globe.

Logistics

The cost of transportation both inbound and outbound was very high. Efficient logistics management in the following areas definitely helped reduce cost:

- Freight or transport management
- Inventory management
- Warehouse design and location
- Type of transportation

Energy

Energy also contributed to the cost of manufacturing; hence reduction of cost of energy should be a priority for manufacturers. Following are some ideas for reducing energy cost:

- Getting an energy audit done and implementing the auditors' suggestions
- Saving fuel through energy efficient burners
- Saving power energy through energy-efficient motors
- Installing screw compressors
- Using alternate fuels by sourcing cheaper fuel like CNG, LPG, RFO, LDO, etc.
- Recovering heat from ovens
- Using FRP fans for cooling tower

Packaging

Packaging material was also a major factor in the cost of manufacturing; hence selection of packaging material had to be done with care. Few ideas were:

- Reducing or modifying shape and size of the product
- Reducing packaging waste through thickness or gauge reduction

Automation to Increase Productivity and Reduce Manpower

Automating bakery processes can result in substantial savings in cost. Areas where we can go for automation are:

- Raw material and finished product handling and storage
- Adding radio frequency dryer to increase the oven productivity
- Automating packaging processes from feeding to cartoning and palletizing.

Outsourcing

Few of the processes—like sugar grinding, promotion, packaging and distribution—could be outsourced.

Exhibit 2 Factors Affecting Wheat Flour Prices in India

Production and consumption of wheat: India was the second largest producer of wheat in the world, averaging an annual production of 65,856 TMT. On average, India consumed 65,283 TMT of wheat, and was ranked as the second largest consumer of wheat in the world. India did not produce enough wheat to be self-sufficient. So, to make up the difference, it imported.[29] Therefore, when production was not sufficient and the demand was more, prices would automatically rise.

Yield of wheat: It was the yield of wheat which was a deciding factor for the good production of wheat. How efficient would be the farm to produce maximum output of wheat with minimum input decided the overall wheat production and finally the price. Generally, the yield of wheat had been fairly good in several regions, e.g., Punjab and Uttar Pradesh, thereby controlling the wheat prices.

Seasonal variation: The monthly price of wheat flour usually went up in the rainy season because the demand of wheat bran would go down due to green pastures available. The millers in this situation would increase the price of wheat flour to recover the total cost of wheat.

Stock of wheat (procurement and minimum support prices): The government's policy was to have a buffer stock of food grains for emergency situation, and it procured wheat accordingly through the Food Corporation of India (FCI) godowns. This not only increased the maintenance cost of the government but also created artificial shortage in the open market. Again, when the government tried to dispose off the stock, the price was fixed in such a way that the open market price was less than the FCI price. On the other side, India was unable to export wheat because of poor quality and price difference in the world market. Thus the stock was spoiled in the godown. The government was also selling that stock at higher prices to the exporters. That also discouraged the processing industry leaving the stock in the godown. The government was thus not in a cozy situation: the stock was piling up, the hoarding cost was going up, the quality was deteriorating. So, it had no other option but to sell it at a price, which was affordable to the millers. That lowered the price of wheat flour in the country and it could be exported at a competitive price.

Price of by-product of wheat: Out of wheat, *maida*[30], *atta*[31], bran[32] and *suji*[33] were made in the ratio of 55:15:25:5. To recover the price of wheat purchased, the miller also depended on those by-products. If the price of by-products like bran and *atta* went down, the price of flour went up.

Export-import of wheat: India was a significant importer of wheat prior to the 1990s. During the 1990s, India had become a marginal importer and even an exporter on occasions. However, since India had a large demand, these marginal quantities could often be significant for the world market. Wheat trade had been under government control in the past, and the export import quantities reflected Government decisions over each year as well as across the years in managing the supply, demand, stocks and the food prices in the country. If the production was less than the consumption, India had to import.[34]

On average, India imported 990 TMT of wheat, and, for various reasons, exported an average of 767 TMT of wheat. The ending stocks in India averaged 9,900 TMT, giving India the third largest ending stocks in the world.[35]

Effects of WTO: Under the WTO, the quantitative restrictions from wheat import and export were removed in India. The trader would have greater freedom to trade the wheat and wheat products and hence the wheat market would become more dynamic. Moreover, under the WTO regime, the provision of export subsidy had to be reduced as these kind of subsidies were very much present in the developed countries especially in the US and EU, while in India and other developing countries, the export subsidy was already nominal or nil, so, we would have advantage in wheat export. So, it was predicted that exports were going to increase in India and accordingly, wheat price and wheat flour price might also go up.

Effect of El-Nino: El Nino was the local warming of surface water, which would take place in the entire equatorial zone of central and eastern Pacific Ocean off the Peruvian coast and affect the atmospheric circulation world-wide. It usually would peak around Christmas hence the name of the phenomenon El Nino which was the Spanish name for Christ child.[36] El Nino would occur every 4-5 years sometimes less (2-3 years) and sometimes more (8-11 years). If the temperature increased by 2 degrees in the equatorial region, it might cause serious damage to the crops in that region. So, it was better to keep an eye on this event. This could decrease the total production in several countries including the US and thus lead to the rise in the wheat price.

World wheat production and consumption: The world wheat production was very important for the price of wheat and wheat flour. When the production of wheat in wheat producing nations fell, the prices automatically went up and vice versa.

The world wheat production in the recent years has hovered between 560-580 million tonnes a year. The biggest cultivators of wheat were EU-25, China, India, USA, Russia, Australia, Canada, Pakistan, Turkey, and Argentina. EU-25, China, India and USA, the four largest producers account for around 58% of the total global production. World wheat consumption was consistently growing with growth in population, as it was one of the major staple foods across the world. The major consuming countries of wheat were EU, China, India, Russia, USA, and Pakistan. Around 16–19% of the world wheat production was traded annually between countries. The annual world trade in wheat was to the extent of 102-106 million tonnes. USA, Australia, Canada, EU-25, and Argentina were the five largest exporters of wheat in the world. Major importing countries that topped in the figures were China, Egypt, Japan, Brazil, and the European Union. Other importing nations were Mexico, Indonesia, Algeria, Philippines, and Iraq. However, the import amount varied year to year depending upon the domestic production.[37]

Exhibit 3 Bread Production Process

Bread Manufacturing Process

Process Bread was made with three basic ingredients: grain, water, and bakers' yeast. The harvested grain was ground according to the type of bread being made. All grains were composed of three parts: bran (the hard outer layer), germ (the reproductive component), and endosperm (the soft inner core). All three parts were ground together to make whole wheat and rye breads. To make wheat flour, the bran and the germ had to be removed. Since bran and germ contained most of the nutrients in grain, the wheat flour was often "enriched" with vitamins and minerals and some wheat flour was fortified with fibre and calcium.

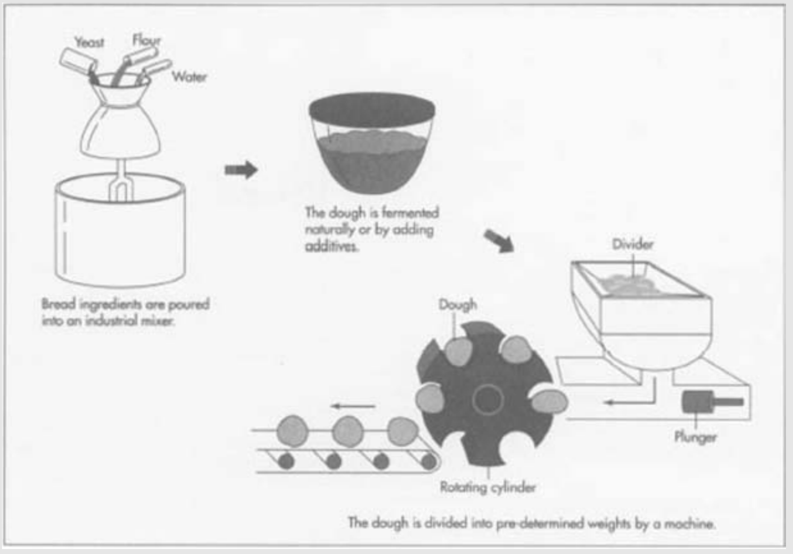
The grains were ground in the grain mills and then sold in bulk to Harvest Gold which kept the grains in storage sacks until they were ready to be used. In the baking factory, water and yeast were mixed with the flour to make a dough. Additional ingredients such as salt, fat, sugar, honey, raisins, and nuts were also added in the factory.

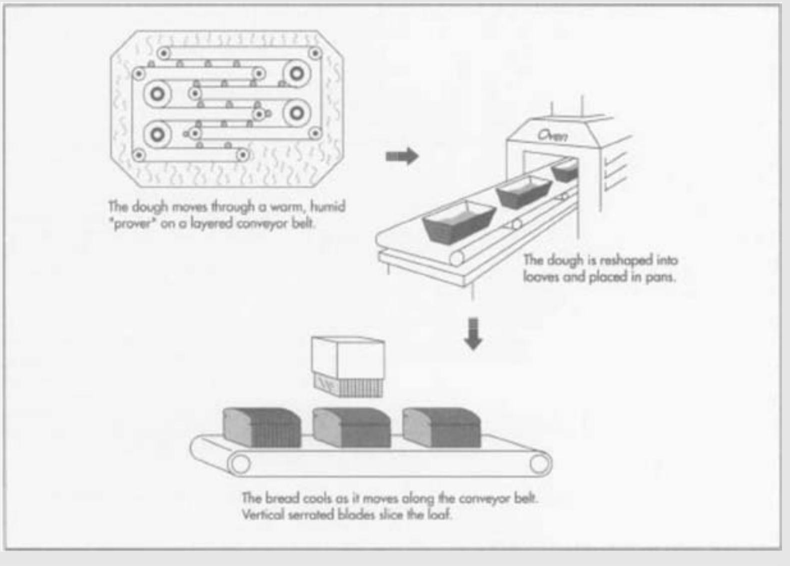
Raw materials used in bread manufacturing were flour, fat, sugar, salt, yeast, sodium stearoyl lactylate, smp solution, bread improvers, ascorbic acid, potassium bromate, calcium propionate, acetic acid and other additives. Plant and machinery required for bread were spiral mixers, silos, sifters, conveyors, bowls, dividers, hander up, interproover, moulder, final proovers, baking ovens, depanners, cooling racks, cooling tunnels, slicers and sealers, and plastic trays. Utilities like chilling plants, air compressors, boilers, and cold storage rooms were required for different applications.

Mixing and Kneading the Dough

The sifted flour was poured into an industrial mixer. Temperature-controlled water was piped into the mixer. This mixture was called "gluten" and gave bread its elasticity. A pre-measured amount of yeast was added. Yeast was actually a tiny organism which fed off the sugars in the grain and emitted carbon dioxide. The growth of the yeast produced gas bubbles, which leavened the bread. Depending on the type of bread to be made, other ingredients were also poured into the mixer.

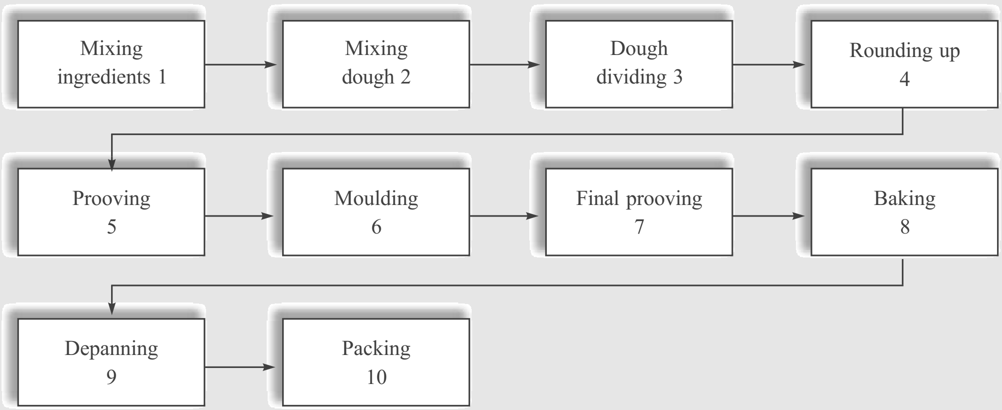
The mixer was essentially an enclosed drum that rotated at speeds between 35 to 75 revolutions per minute. Inside the drum, mechanical arms kneaded the dough to the desired consistency in a matter of seconds. Although modern bread production was highly computerized, the ability of the mixing staff to judge the elasticity and appearance of the dough was critical. Experienced personnel were able to determine the consistency by the sound of the dough as it rolled around the mixer. The mixing process took about 12 minutes.

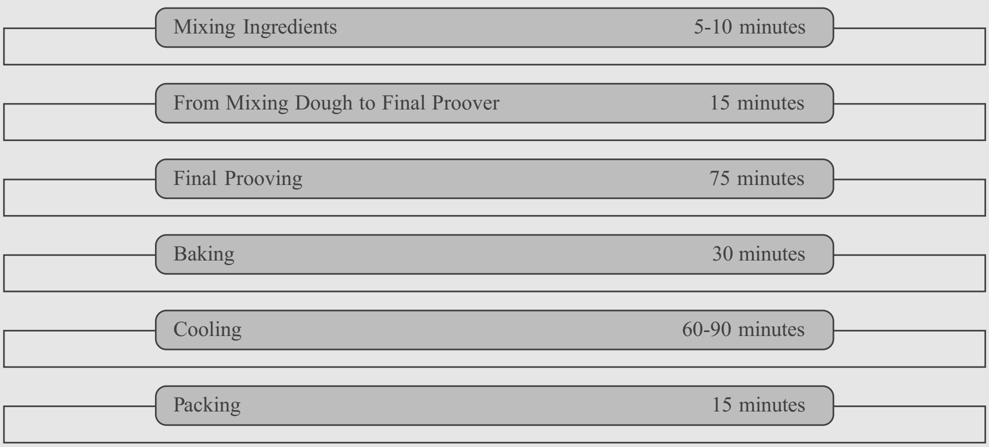




Fermentation

Three methods were used to ferment the dough. In some plants, the high-speed machinery was designed to manipulate the dough at a very high speed and with great force, which forced the yeast cells to rapidly multiply. Fermentation could also be induced by the addition of chemical additives such as 1-cysteine (a naturally occurring amino acid) and vitamin C. A certain portion of the bread was allowed to ferment naturally. In this instance, the dough was placed in covered metal bowls and stored in a temperature-controlled room until it rose.





Division and Gas Reproduction

After the dough fermented, it was loaded into a divider with rotating blades that cut the dough into pre-determined weights. A conveyer belt then moved the pieces of dough to a moulding machine. The moulding machine shaped the dough into balls and dropped them onto a layered conveyer belt that was enclosed in a warm, humid cabinet called a "prover." The dough moved slowly through the prover so that it could "rest" and thus allow the gas reproduction to progress.

Moulding and Baking

When the dough emerged from the prover, it was conveyed to a second moulding machine which re-shaped the dough into loaves and dropped them into pans. The pans travelled to another prover that was set at a high temperature and with a high level of humidity. Here the dough regained the elasticity lost during fermentation and the resting period.

From the prover, the pans entered a tunnel oven. The temperature and speed were carefully calculated so that when the loaves emerged from the tunnel, they were completely baked and partially cooled. While inside the tunnel, the loaves were mechanically dumped from the pans onto shelves. The baking and cooling process lasted approximately 30 minutes.

Slicing and Packaging

The bread continued to cool as it moved from the oven to the slicing machine. Here vertical serrated blades moved up and down at great speeds, slicing the bread into consistently sized pieces.

Eight metal plates held the slices together while picking up each loaf and passing it to the wrapping machine. Preprinted plastic bags were mechanically slipped over each loaf. The bags were closed with wire twists or sealed with heat.[38]

Exhibit 4 Food Safety and Standard Authority of India (FSSAI)[39]

Food Safety and Standard Authority of India (FSSAI) had been established under the Food Safety and Standards Act, 2006 which consolidated various acts and orders that have hitherto handled food-related issues in various Ministries and Departments. FSSAI had been created for laying down science-based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption.

Highlights of the Food Safety and Standard Act, 2006

Various central Acts were repealed after commencement of FSS Act, 2006:

- Prevention of Food Adulteration Act, 1954
- Fruit Products Order, 1955,
- Meat Food Products Order, 1973,
- Vegetable Oil Products (Control) Order, 1947
- Edible Oils Packaging (Regulation) Order 1988,
- Solvent Extracted Oil,
- De-oiled Meal and Edible Flour (Control) Order, 1967
- Milk and Milk Products Order, 1992

The Act also aimed to establish a single reference point for all matters relating to food safety and standards, by moving from multi-level, multi-departmental control to a single line of command. To this effect, the Act established an independent statutory authority—the Food Safety and Standard Authority of India with its head office at Delhi. The Food Safety and Standards Authority of India (FSSAI) and the State Food Safety Authorities enforced various provisions of the Act.

Duties and Functions of the Authority

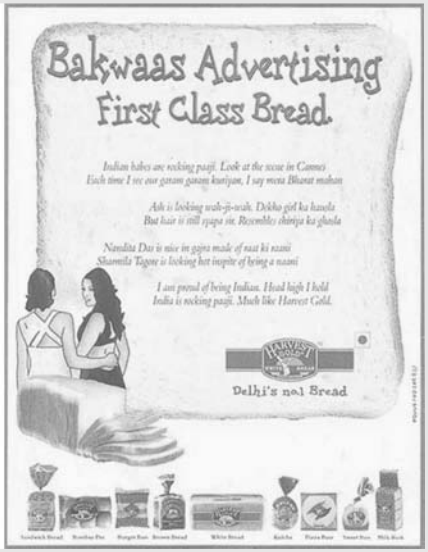
FSSAI had been mandated by the FSS Act, 2006 for performing the following functions:

- Framing of Regulations to lay down the Standards and guidelines in relation to articles of food and specifying appropriate system of enforcing various standards thus notified.
- Laying down mechanisms and guidelines for accreditation of certification bodies engaged in certification of food safety management system for food businesses.
- Laying down procedure and guidelines for accreditation of laboratories and notification of the accredited laboratories.
- Providing scientific advice and technical support to Central Government and State Governments in the matters of framing the policy and rules in areas which have a direct or indirect bearing of food safety and nutrition.
- Collecting and collating date regarding food consumption, incidence and prevalence of biological risk, contaminants in food, residues of various, contaminants in foods products, identification of emerging risks and introduction of rapid alert system.
- Creating an information network across the country so that the public, consumers, Panchayats, etc., receive rapid, reliable and objective information about food safety and issues of concern.
- Providing training programmes for persons who are involved or intend to get involved in food businesses.

- Contributing to the development of international technical standards for food, sanitary and phyto-sanitary standards.
- Promoting general awareness about food safety and food standards.

Bakery manufacturers needed to follow up with the Food Authority for labelling, adultrants, additives, and their permissible levels, etc.

ANNEXURE Sample Advertisements



If one has worked in an ad agency, he would know that creating a big idea is painfully slow. An unusual product should have an unusual campaign. Every Friday, one can enjoy while reading 'Just like Harvest Gold' which is not just another bread.

Ultimately, the idea was to make Harvest Gold a generic name for the premium quality bread. To make the edible brand indelible, the Delhi ad-shop of Equus Advertising Company cooked up a high-value, high-impact campaign which used a different nonsense verse each week, in half-Punjabi (Punjab is a state in North-West of India and Punjabi is the language spoken there and very commonly spoken in Delhi too as it is the easiest language to learn), half-English, to hook the consumer.

The last line always drives home the core concept: "Harvest Gold: Not Just Another Bread" and while the rhymes have little reason, they do have tonnes of topical interest. Here is one sample:

"Election time is coming. There is obviously lot of stress. Political scene te twanu pata hai Bilkul disgusting mess,"[40]

Notes and References

1. Hot Indian breads made of wheat flour. Most Indian people prefer to have them hot.
2. CNG (Compressed natural gas) is an alternative fuel and is widely accepted by vehicle owners because of low cost and clean burning aspect. The government has made this option mandatory for trucks and autorickshaws, i.e., they have to get their vehicles CNG fitted.
3. People belonging to Delhi.
4. Sourced from the website of business standard, http://www.businessstandard.com/india/news/kitindian-bakery-market-in-2008/333773/=, May 28, 2010.
5. Sourced from the website of Ministry of Food Processing Industry, India http://mofpi.nic.in/images/file/volume 2.pdf=, May 28, 2010.
6. *Ibid.*
7. *Ibid.*
8. Sourced from the website http://www.madehow.com/volume-2/bread.html=, May 29, 2010.
9. Sourced from the website http://www.shumaonline.com/html=, May 29, 2010.
10. Sourced from the website http://aibma.com/industry/html,=, May 29, 2010.
11. *Bakwaas* is a hindi word which means worthless.
12. Sourced from the website http://www.thehindubusinessline.in/catalyst/2002/12/26/stories/2002122600040100.html,= April 19, 2012.
13. http://www.expressindia.com/news/fe/daily/19980223/05455374.html
14. '*Ki*' here means has
15. '*Ka*' also here means has
16. '*Chaddo na*' bread '*khao*' means leave it and have bread.
17. *Ik* '*gaal*' must be '*saaf*' means one thing should be clear.
18. Sourced from the website http://www.fnbnews.com/article/detnews.asp?articleid=18007&section id=32, April 19, 2012.
19. Sourced from the website http://www.logisticsbureau.com.au/archive/Bread_Supply_Chain.htm =, April 22, 2012.
20. Sourced from the website http://www.fnbnews.com/article/detnews.asp?articleid=18007&section id=32, April 19, 2012.
21. *Ibid*.
22. Sourced from the website http://www.perfectbread.com/company.php, June 1, 2010.
23. Sourced from the website of http://www.tehelka.com/story_main39.asp?filename=Bu210608breakingbondwithbread.asp, May 31, 2010.
24. Sourced from the website of http://www.divest.nic.in/comm-reports/dereports1.pdf page 60=, May 28, 2010.

25. Sourced from the website http://www.madehow.com/volume-2/bread.html=, May 29, 2010.
26. Sourced from the website http://www.shumaonline.com/html=, May 29, 2010.
27. Sourced from the website http://bakerybazar.blogspot.in/2009/06/cost-reduction-strategies-for-bakeries.html=, June1, 2010.
28. Sourced from the website http://www.shumaonline.com/on June1, 2010.
29. Sourced from the website of spectrum commodities, http://www.spectrumcommodities.com/education.commodity/statistics/wheat.html, August 8, 2011.
30. *Atta* is the Hindi word which means wheat flour, out of which indian bread like roti/chapati is made.
31. *Maida* is the Hindi word for refined flour.
32. Bran is the outer layer of cereal grain which has high dietry fibre.
33. *Suji* is the Hindi word for Semolina
34. Sorced from the website http://www.jstor.org/stable/4415713 =, on april 20, 2012.
35. Sourced from the website of spectrum commodities, http://www.spectrumcommodities.com/education.commodity/statistics/wheat.html, August 8, 2011.
36. Sourced from the website http://www.fao.org/sd/eidirect/EIan0008.html,= on april 20, 2012.
37. Sourced from the website of Indiamart, http://finance.indiamart.com/markets/commodity/wheat.html, August 8,201
38. Sourced from the website http://www.madehow.com/volume-2/bread.html=, May 29, 2010.
39. Sourced from the website http://foodsafetyhelpline.in/FSSAI/AboutFssai.asp?GL=2, on April 20, 2012.
40. Sourced from the website http://www.expressindia.com/news/fe/daily/19980223/05455374.html=, June 1, 2010.

Case 3

Banking in Paradise: Strategy Case of the Jammu and Kashmir Bank*

"For the last two years we have been on a voyage of self-discovery of the institutional self of J&K Bank."

–Haseeb A. Drabu, Chairman & CEO at the 69th annual general meeting of the Bank in June 2007

"J&K Bank envisages itself as a developmental institution central to the prosperity of the J&K State and as such lays high emphasis on inclusive growth involving the weakest sections of the society."

–Mushtaq Ahmad, Chairman & CEO at the 76th annual general meeting of the Bank in May 2014

There are an estimated 2.83 lakh apple growers in Jammu & Kashmir. Apart from the growers, there are *arathias* (brokers), traders and commission agents making up a vast ecosystem of participants in the apple growing ventures in the horticulture sector of the State. The apple growers' eco-system requires nearly Rs. 5000 crore through Rs. 6000 crore credit. Financing storage capacity that extends shelf-life of apples offers another opportunity for financiers to extend credit of about Rs. 1700 crore through Rs 1800 crore. Besides the pecuniary benefits, there is the lure of helping small apple growers attain economic empowerment. Such are the issues that Jammu & Kashmir Bank deals with.

PROFILE OF THE J&K BANK

Jammu & Kashmir (J&K) Bank Ltd. was incorporated as the first State-owned bank in the country on October 1, 1938 and commenced business in July 1939. J&K Bank was defined as a government company under the Indian Companies Act, 1956 under the extended Central laws of the State. In 1971, the Bank acquired the status of scheduled bank and was declared as A-class bank by the Reserve Bank of India (RBI) in 1976. It has its registered as well as corporate office at Srinagar in J&K.

The J&K Bank is governed by the Banking Regulation Act of India besides the Companies Act. It is listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). It is rated highly for safety by Standard & Poor and CRISIL. The bank has enjoyed uninterrupted profitability and has declared dividends since the past four decades. Since its listing in 1998 the J&K Government reduced its stake in the bank from 86 per cent to 53 per cent through a public issue.

The J&K Bank was established with a capital of Rs. 7,72,725 and a base of 61,818 shares with a simple yet noble idea of liberating the people of J&K State from the grasp of moneylenders. The aggregate business

* This case has been prepared by Dr. Azhar Kazmi, formerly Professor of Business Administration at the Aligarh Muslim University, India and Dr. Adela Kazmi, Lecturer in Management at Sophia College, Ajmer, India. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation. Reprinted by permission of the authors.

of the bank in FY 2014 stood at Rs. 115,720 crore, total deposits at Rs. 69,336 crore, net advances at Rs. 46,385 crore, net income at Rs. 3075 crore and net profit at Rs. 1182 crore. The bank employed more than 9400 people as of March 2014.

Exhibit 1 Salient Financial Highlights of the Jammu & Kashmir Bank for the Period FY2010 through FY2014

Date ending	Year ending Mar 2014	Year ending Mar 2013	Year ending Mar 2012	Year ending Mar 2011	Year ending Mar 2010
Total income	6767.00	6,620.53	5,169.70	4,077.89	3,473.12
Net profit	1182.47	1054.89	1201.11	934.39	791.61
Equity capital	48.49	48.49	48.49	48.49	48.49
Reserves	5675.12	4,816.20	4,044.69	3,430.19	2,961.97
Government equity ownership	51.51	51.51	51.51	51.51	51.51
Capital adequacy ratio in per cent	12.91	12.83	13.36	13.72	15.89
Earnings per share	243.92	217.65	165.69	126.90	105.69

Figures in Rs. crore
Source: Annual Reports of J&K Bank

J&K Bank has a network of 777 branches called business units of which 552 branches are located in semi-urban and rural areas. Nearly 85 per cent of its branches are in J&K. About 41 per cent of its advances are to the J&K State while the rest of 59 per cent are all over India. Sector-wise, the advances of Rs. 46,385 crore are to the corporate sector (57 per cent), personal (15 per cent), trade and agriculture (9 per cent each), small and medium enterprises (8 per cent) and 2 per cent to others. The bank has a network of 800 ATMs as of March 2014. Exhibit provides some salient financial highlights and Exhibit 2 the key financial ratios for J&K Bank for five-year period from FY2010 through FY2014.

Exhibit 2 Key Financial Ratios of J&K Bank for the Period FY 2010 through FY 2014

Key Financial of Jammu and Kashmir and Kashmir Bank					
	Mar ‘14	Mar ‘13	Mar ‘12	Mar ‘11	Mar ‘10
Investment Valuation Ratios					
Face Value	10.00	10.00	10.00	10.00	10.00
Dividend Per Share	50.00	50.00	33.50	26.00	22.00
Operating Profit Per Share (Rs)	327.44	284.00	246.39	188.98	162.97

Contd.

Net Operating Profit Per Share (Rs)	1,395.90	1,265.90	1,039.62	812.05	705.07
Free Reserves Per Share (Rs)	--	--	571.13	485.79	420.93
Management Efficiency Ratios					
Interest Income / Total Funds	9.00	9.30	9.10	8.46	8.52
Net Interest Income / Total Funds	3.57	3.51	3.69	3.80	3.69
Non Interest Income / Total Funds	0.52	0.73	0.21	0.22	0.23
Interest Expended / Total Funds	5.43	5.79	5.41	4.66	4.83
Operating Expense / Total Funds	1.46	1.42	1.53	1.83	1.72
Profit Before Provisions / Total Funds	2.53	2.74	2.29	2.10	2.11
Net Profit / Total Funds	1.57	1.60	1.45	1.32	1.28
Loans Turnover	0.16	0.17	0.17	0.16	0.16
Total Income / Capital Employed (%)	9.52	10.03	9.31	8.68	8.75
Interest Expended / Capital Employed (%)	5.43	5.79	5.41	4.66	4.83
Total Assets Turnover Ratios	0.09	0.09	0.09	0.08	0.09
Asset Turnover Ratio	0.09	0.10	0.09	0.09	0.09
Balance Sheet Ratios					
Capital Adequacy Ratio	--	12.83	13.36	13.72	15.89
Advances / Loans Funds (%)	68.01	65.40	65.91	62.28	63.75
Debt Coverage Ratios					
Credit Deposit Ratio	64.08	61.48	60.47	60.13	62.62
Investment Deposit Ratio	38.89	40.29	42.15	41.08	35.15
Cash Deposit Ratio	4.30	4.66	5.87	6.98	7.19
Total Debt to Owners Fund	12.11	13.20	13.03	12.84	12.37
Financial Charges Coverage Ratio	0.48	0.49	0.44	0.47	0.46
Financial Charges Coverage Ratio Post Tax	1.31	1.29	1.28	1.30	1.28
Cash Flow Indicator Ratios					
Dividend Payout Ratio Net Profit	20.49	22.97	20.21	20.48	20.81
Dividend Payout Ratio Cash Profit	19.23	21.93	19.16	19.29	19.41

Contd.

Earning Retention Ratio	79.51	77.03	79.79	79.52	79.19
Cash Earning Retention Ratio	80.77	78.07	80.84	80.71	80.59
Earnings Per Share	--	217.65	165.69	126.90	105.69
Book Value	--	1,003.49	844.34	717.58	621.00

Source credit: Dion Global Solutions Limited

J&K Bank carries out banking business of the Central Government. In spite of a government equity holding of 53 per cent, J&K Bank is regarded as a private sector bank. It is the only banker and lender of last resort to the J&K government. Plan and non-plan funds, and taxes and non-tax revenues are routed through the J&K Bank. The bank claims the distinction of being the only private sector bank that has been designated as agent of RBI for government-related banking. The services of J&K Bank are utilized for the purposes of disbursing the salaries of government officials. The bankalso collects taxes pertaining to Central Board of Direct Taxes, in J&K.

The new logo of J&K Bank has green, blue and red squares symbolising the three regions of Jammu, Kashmir, and Ladakh and different attributes assimilating in the white counter in the form of a falcon with outstretched wings representing high aspirations. The symbolism in the new logo goes beyond mere tokenism. The changing environment outside is having a far-reaching impact within.

STRATEGIC INTENT OF J&K BANK

J&K Bank has a vision that says: "To catalyse economic transformation and capitalise on growth". Further, it states: "Our vision is to engender and catalyse economic transformation of Jammu and Kashmir and capitalise from the growth-induced financial prosperity thus engineered. The bank aspires to make Jammu and Kashmir the most prosperous state in the country, by helping create a new financial architecture for the J&K economy, at the centre of which will be the J&K Bank."

The mission statement lays down a two-fold path to become the most profitable bank in the country. "Our mission is two-fold: To provide the people of J&K international quality financial services and solutions and to be a super-specialist bank in the rest of the country. The two together will make us the most profitable bank in the country."

The business model is what the J&K Bank calls a two-legged model. This model, on the one hand, seeks to increase lending in J&K resulting in higher margins despite lower volumes. On the other hand, it serves niche lending markets over the rest of the country to build volumes and improve margins. Earlier, the bank followed a de-risking model that involved playing safe with garnering low-interest deposits within the State and lending at higher margin to external borrowers.

The business definition of J&K Bank has been under transformation since the last several years. Traditionally, the bank focused on the depositors within the state to collect low-volume savings and fixed deposits on low interest rates and advance these as loans to corporate borrowers outside the State in large volume at higher interest rates thus leveraging on the difference in the interest rates. The customer needs served within the State were to provide a safe avenue of investment and act as a lender to large-sized clients outside the State. The means adopted was arbitrage on the interest rate difference inside and outside the State. The changed business model works on retaining the collections within the State and looking for investment avenues through small borrowers hoping for the resulting economic development to benefit the bank in the long-run.

The usual parameters for performance management of banks are in terms of profitability, safety, productivity, efficiency and growth. Different banks emphasise on different combinations of these performance indicators. J&K Bank in the past had been primarily focusing on profitability, safety and growth. The emerging configuration of business goals are being realigned to focus more intensely on productivity and efficiency as well. Specifically, the business goals are of productive and efficient growth, robust balance sheet, reality asset book and substantial provisions

The heavy emphasis on the State in the vision and mission statements and in the emerging business model might seem to be unusual for a private sector bank. But the interesting history and unique facts related to the establishment of J&K Bank explain this unique status of the bank.

RELEVANT BUSINESS ENVIRONMENT OF J&K BANK

J&K Bank operates in the politicallyvolatile state of Jammu & Kashmir. Business in this region had been crippled over many years of separatist insurgency and terrorist activity. Following peace moves between India and Pakistan, the State had been experiencing considerably less turbulence in recent years. But uncertain political environment hurts the prospects of economic activity within the state.

The 'paradise on earth', as Kashmir has been immortalised in the words of a Mughal emperor, is a geographical region rich in flora and fauna endowed with great natural beauty having rich heritage and traditions. J&K is the northern-most state of Indiacovering an area of 222,236 sq km. The state consists ofthree regions: Jammu, the Kashmir valley and Ladakh. The total population of Jammu and Kashmir as per census of 2011 is 12.5 million andthe population density stands at 124 per sq km. In terms of population, Jammu and Kashmir barely is 1 per cent of India's total population with only one-fifth of them residing in urban areas.

The gross state domestic product is Rs. 87,319 crore in 2013-2014 with annual growth rate of 15.5 per cent. The survey conducted by the state during 2007-08 put the below-poverty-line population at 21.63 percent. The unemployment rate in J & K has reduced from 5.3 to 4.9 per cent as reported during the National Sample Surveys in its 66th and 68th rounds the latter being conducted during July 2011 through June 2012. J&K state contributes an estimated 0.76 per cent to the country's GDP and ranks 20th in the list of contributing states. Most industrial and economic activities are in an embryonic stage. The State is heavily dependent on traditional occupations of handicrafts, horticulture, farming, and animal husbandry besides tourism that is a major revenue earner. Industry is mainly in the form of small-scale enterprises, manufacturing units, and cottage industries. Real estate, information technology, and service industries such as financial services and hospitality are some of the prospective industries. Land reforms coupled with liberal funding by Central Government—or at least the part of which that ultimately reaches the intended beneficiaries—and State policies designed to attract more investments may help to revive what some refer to as the 'post-conflict economy'.

THE INDUSTRY ENVIRONMENT FOR J&K BANK

India's banking sector could become the fifth largest banking sector in the world by 2020 and the third largest by 2025 according to a KPMG-CII report. Following the passing of the Banking Laws (Amendment) Bill by the Indian Parliament in 2012, the landscape of the Indian banking industry has begun to change. The bill allows the RBI to make final guidelines on issuing new licenses, which could lead to a bigger number of banks in the country. Some banks have already received licenses from the government, and the RBI's new norms will provide incentives to banks to spot bad loans and take requisite action to keep rogue borrowers in check. Over the next decade, the banking sector is projected to create up to two million new jobs, driven by the efforts of the RBI and the Government of India to integrate financial services into rural areas. Also, the traditional way of operations will slowly give way to modern technology. Total banking assets in India touched US$ 1.8 trillion in FY13 from US$ 1.3 trillion in FY10, with 72.7 per cent of it being accounted by the public sector and are anticipated to cross US$ 28.5 trillion by FY25. As per the Annual Report on profile of banks in India, by the RBI, there were 89 scheduled commercial banks, 26 public sector banks, 6 State Bank of India and associate banks, 20 private sector banks, and 43 foreign banks operating in India. In April 2014, two banking licences were given to IDFC and Bandhan to start banking operations in the country.

The banking industry in India is in the midst of a major transformation due to changes in economic conditions and continuous deregulation. Deregulation in the form of decontrolled interest rates or liberalized norms for foreign exchange are leading to greater autonomy and operational flexibility helping to create a level-playing field. New initiatives such as the enactment of Securitization Bill offer better opportunities to step up loan recoveries that could further enhance the scope of greater profitability. The industry is on the path of major recovery both in terms of strength and soundness. Similar to experience in other rapidly growing countries, India is making sizeable gains in expanding into consumer credit with tightening of credit administration procedures. Commercial banks are required to maintain capital for credit risk and market risk as per the BASEL framework. Major policy actions that led to sharp fall in the interest rates enabled banks to post significant rise in operational profits. Banks are showing sizeable gains in their profitability.

Adopting universal banking models, adding new channels with customer-friendly pricing, offering better services and innovative product offerings are some of the major widespread strategic actions in the banking industry in India. There are also pressures for enhancing efficiency and financial prudence at a time when there is market pressure to cater to more demanding customers. The responses to environmental forces are varied: leveraging branch networks, adopting latest technologies, improving asset quality, reorganising to reduce fixed cost and cost per transaction, and attempting to enter hitherto neglected and underserved market segments are some of the popular corporate actions being adopted across the industry.

The banking scenario in the state of J&K is under transition. As of March 2013, there were 1638 branches of scheduled commercial banks, co-operative banks and state financial corporation in operation in J&K. There has been an increase of about 13 per cent in number of bank branches over 2012. A majority of about 53 per cent of the number of branches operate in rural, 21 per cent in semi-urban and 26 per cent in urban areas. The growth of private sector banking has been higher as compared to other types of banks at about 22 per cent in 2013 over that in 2012. The banking profile of J&K is presented in Exhibit 3.

Exhibit 3 Banking Profile of J&K

Bank Group	**Number of bank branches by sector as on 31 March 2012 & 31 March 2013**								
	Urban		Semi-urban		Rural		Total		% share
	2012	2013	2012	2013	2012	2013	2012	2013	2013
(i) Public sector banks	149	155	89	104	120	128	358	387 (8.10)	23.63
(ii) Private sector banks	135	165	128	153	280	343	543	661 (21.73)	40.35
(iii) Regional rural banks	20	25	42	49	242	249	304	323 (6.25)	19.72
A. Total Scheduled commercial banks	304	345	259	306	642	720	1205	1371 (13.77)	83.70

Contd.

Exhibit 3 *Contd.*

B. Central/state co-operative banks	55	59	46	48	143	146	244	253 (3.69)	15.45
C. Other Financial Institutions (SFC)	-	14	-	-	-	-	-	14	0.85
Total A+B+C	359	418 (16.43)	305	354 (16.06)	785	866 (10.32)	1449	1638 (13.04)	100.00

Note: Figures in brackets indicate growth in percent.

Source: Economic Survey Jammu & Kashmir, 2013-2014, 160 at *http://www.indiaenvironmentportal.org.in/files/file/J&K%20EconomicSurvey%202013-2014.pdf*

The banking services have seen marginal improvements over the years Access to banking has increased both geographically and demographically. As compared to all-India figure of one bank branch per 10,000 people, J&K has one bank branch for every 8000 people. The matter of concern is the huge inter-district disparity in spread and reach of banking services. In terms of percentage of households availing banking services, for instance, districts of Kashmir region are way behind Jammu region as well as Ladakh region. The districts of Kulgam and Kupwara in Kashmir, for instance, have barely half of the households having access to banking services while the corresponding figures for Jammu region districts are all above 65 per cent as per census of 2011.

It might be one of the less-developed states but J&K is emerging as the new business destination for new-generation private banks. Banking industry in J&K consists of several types of banks: scheduled commercial banks in the public and private sector, cooperative banks, and rural banks. In 2013, apart from the J&K Bank, the ICICI Bank, the country's largest private-sector lender, more than doubled the number of its branches in the state to 25. HDFC Bank has 64 branches, the most in the state among India's new-age private banks. Of these, 45 have been opened over the past five quarters and almost 60 per cent are in semi-urban and rural areas. Since April 2013, Axis Bank's branches in the state increased from six to 26. Of these, 14 were opened in un-banked regions. Financial services in the rural sector of Jammu and Kashmir are provided by the various rural banks. Ellaquai Dehati Bank and the Kamraz Rural Bank are two such banks promoted by the J&K Bank.

EVOLVING A NEW BUSINESS MODEL

In the past, J&K Bank was able to mobilise substantial deposits in the State at low cost, due to lack of competition. It used to lend outside the State at competitive rates. This is the simple business model—called the de-risking business model—that sustained it for so many years.

A big majority of the Bank's branches are located in J&K where it has a dominating presence. This has worked to the bank's advantage immensely. It gives the Bank ready access to low-cost savings and fixed deposits. Despite private enterprise in the State being dormant, government projects bring in big business for the bank.

J&K Bank functions as a universal bank in J&K and as a specialised bank in the rest of the country. It is also the only private sector bank designated as RBI's agent for banking business, and carries out the banking business of the Central Government, besides collecting central taxes for CBDT. J&K Bank follows a two-legged business model whereby it seeks to increase lending in its home state which results in higher margins despite modest volumes, and at the same time, seeks to capture niche lending opportunities on a pan-India basis to build volumes and improve margins.

The second approach is to try to become a super-specialty bank focusing on financing commodities. This new identity is in line with the thinking that most banks are geared to serving the needs of manufacturing-based corporate systems rather than providing for a rural-based commodity economy with a very large service sector and an artisan sub-economy as is the case in J&K.

MAKING OF J&K BANK'S BUSINESS STRATEGY

The banking industry in India has come a long way from 'take-deposits-give-loans' model. In the past, the industry environment had been characterised by low-level competition, poor technology integration, high non-performing assets, and low productivity of human resources.The dominant trend in contemporary banking business strategies, especially among the new private sector banks, is tofocus on retailing through high-quality, high-efficiency service backed by customer-orientation, harnessing technology for better service delivery and offering innovative banking products. Thus, an outward focus seems to be the crux of banks' strategies creating a competitive environment setting the stage for competitive business strategies. To the top management at J&K Bank it must have been a tantalising thought to jump into the fray and leverage its advantages to compete adopting a me-too strategy. Yet, it seems to be veering away towards a differentiation business strategy.

The overall thrust has been to become a universal bank within J&K and a specialist bank outside. Aiming at expansion, aggressive credit growth and improved liability management, the banks aimed to increase lending within the State which continues to remain a high-margin, low-volume business segment. Outside, the bank adoptedand targeted niche lending at commodity financing.

The business strategy of J&K Bank has been of becoming a super-specialty bank focused on lending to commodities' businesses outside the J&K State. It tried to do this by leveraging on the margins earned on arbitrage between the interests paid within and outside State and this seems to be the fulcrum of building competitive advantage.In line with the business strategy, the bank explored opportunities in setting up branches to serve under-serviced but high turnover commodity businesses such as leather, grains and spices businesses at different locations in India. J&K Bank has a combination of consolidation, re-engineering, re-pricing and reorganisation as its strategies as of March 2014.

STRATEGIC LEADERSHIP

The J&K Bank started on its growth trajectory during the stewardship of Mohammed Yousuf Khan, civil service officer who was appointed the chairman and managing director in December 1996. Known for his fast decision-making style combined with moderate risk-taking and panache for adopting new technologies, Khan helped the J&K Bank emerge in the limelight. He retired in 2004 and had an extended term till 2005 when Haseeb Drabu took over. Under Khan's leadership over six years, the bank witnessed a jump in turnover from Rs. 4259 crore to Rs. 27946 crore as profits surged from Rs. 18 crore to Rs. 406 crore. The bank's net worth jumped from Rs. 141 crore to Rs. 1594 crore as NPAs fell from 12% to slightly over 1%.

The board of directors of the J&K Bank has nine directors of whom five are independent, non-executive directors nominated by the RBI and by the State Government. Mushtaq Ahmad is the chairman and CEO of the bank. He has risen from the ranks having joined the bank in 1972 as probationary officer. He has held various functional and top management responsibilities and played a key role in some of the bank's activities in corporate and retail banking, treasury and investment management, and international banking.Mohammad Ibrahim Shahdad, Vikrant Kuthalia, Abdul Majid Matto, and Nihal C. Garware are prominent businessmen and industrialists and R.K. Gupta, Nisar Ali, Hari Narayan Iyer and B.B. Vyas are professionals on the board.

The bank has an executive committee consisting of executive presidents, senior presidents, presidents and vice-presidents. There are several senior managers of the level of vice-presidents looking after the various functional areas of the Bank besides staff positions of chief legal officer and company secretary.

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

The board operates through a number of committees as below. In fact, the number of committees is higher than what most other organisations have:

- Audit Committee
- Management Committee
- Integrated Risk Management Committee
- Remuneration Committee
- Compensation Committee
- Shareholders/Investors Grievance Committee
- Monitoring of large-value Frauds Committee
- Nomination Committee
- Customer Service Committee
- Information Technology Strategy Committee
- Legal Committee
- Estates Committee

The bank has a code of conduct for the board members and senior management personnel and an insider trading code. It has formulated and implemented a corporate ethical policy for setting forth a code of accountability for directors, officers and employees in the discharge and performance of their responsibilities. A formal service manual for employees contains comprehensive regulations on ethical standards to be observed by all the employees of the bank. The bank's annual report sets forth the adherence to these codes of conduct in line with statutory requirements.

From the perspective of the bank, corporate governance and social responsibility assume special relevance and role in their case as the bank operates in an environment that is emerging from a situation of civil strife. As the prime corporation in the State, the bank has a vested interest in making the State a safe place for conduct of business. In fact at several places in media and bank publications one finds references to the fact that the bank perceives growth as an outcome of the development of the State a phenomenon that it calls as the virtuous cycle of growth of one feeding into that of another. The bank realises that it has a key role to play in providing public and private services, financial infrastructure, and employment. In such a manner, the efficiency and accountability of the bank is both a matter of private and public interest.

The bank claims to manage corporate social responsibility (CSR) as any other strategic issue by aligning it to its mission. Such an alignment is expected to differentiate the bank's brand and enhance its reputation. A formal CSR policy is in place that governs donations by stipulating the prescribed limit of 1 per cent of the published profit to be spent on economic, social, cultural, and geographical needs of the State and its people. Donations, various acts of philanthropy, scholarships, heritage preservation, promotion of tourism, infrastructure development, construction of public utilities etc. are some of the CSR activities performed by the Bank.

Despite all the claims of the bank about CSR and dissemination about its various CSR activities on its website and other media, there does seem to be an undercurrent of dissatisfaction with the level of its contribution to the State. For long, the bank was perceived as gaining from low-cost deposits from the people of the State who possibly do not have other avenues of investments. Out of these deposits a major part was lent to big borrowers at lower interest rate to corporate houses outside the State and only a small part was invested in the State. This seemed to have put the Bank in a position of advantage. In recent years, the Bank has gained national prominence and is seen as a progressive and developing institution. This might be at variance with its image among the local people.

Such variance of perception comes out in the open, for instance, when a public representative of the level of the ex-chief minister of the State, Ghulam Nabi Azad reprimands the Bank publicly on its "red tape, delay tactics, and other complications that rule the roost in Bank's functioning when educated youth approach the Bank for help to start livelihood ventures, industrial units, and other economic activities." He exhorts the Bank to be a partner in State's welfare as "profit earning, paying of rich dividends and seeking economic glory …. is not sufficient for a Bank like J&K Bank that represents the aspirations of the people of Jammu, Kashmir, and Ladakh".

Another instance is recorded in the local *Kashmir Times* of June 24, 2007 where it is reported that the local MLA of Gulmarg and a former tourism minister challenged the claim of J&K Bank saying not many unemployed youth have been provided credit in the district of Baramulla that is one of biggest districts of Jammu and Kashmir. When the newspaper reporter contacted the Bank's public relations department on figures related to credit advanced to farmers, unemployed youth, and small businesses the information was not forthcoming. Another instance is reported in the local press in August 2014 where the bank's erstwhile CEO Haseeb Drabu accuses the incumbent management of the bank of governance and management deficit because of alleged stressed loans of Rs. 2500 crore and undeclared non-performing assets of Rs. 1100 crore.

Discounting the politicians' penchant for playing to the gallery and possible peevishness of an ex-CEO, such public statements do reveal the soft underbelly of bank's functioning.

FORMULATING A STRATEGIC RESPONSE

The unique context in which the J&K Bank operates has led it to think of a strategic response based on an approach that combines region-specific credit policies that suit the sub-national growth impulses and context and the productisation of finance to suit local enterprises. In doing so, the bank perceives itself to be a regional bank with national reach and international standards of operations.

On the one hand, the competencies of the Bank are seen to reside in its domain knowledge, banking infrastructure, cultural moorings and social networks. On the other hand, it endeavours to formulate lending policies that derive their logic from sources of growth in terms of enterprises, irrespective of their size; and a risk mitigation policy which goes beyond prudential measures and seeks to cover the business risk, in addition to credit risk and operational risk.

Reaching out to external partners within and outside the State seems to constitute an integral part of the J&K Bank's effort to provide a strategic response. Long used to operating in a protected environment, the Bank has adopted a partnering policy for entering new lines of businesses and strengthening its interorganisational relationships with agencies within the State.

The Bank continues to be depository participant of National Securities Depository Limited and Central Depository Services (India) Limited. In the insurance business, the Bank acts as a corporate agent of MetLife India Insurance and has equity stake of 25 per cent in the company. It also has an alliance with Bajaj Allianz General Insurance for providing home insurance. There is a memorandum of understanding with UTI for merchant banking activities such as debt and equity syndication. The Bank has the RBI's approval to set up a stock broking subsidiary.

The J&K Bank has close links with the State government in various capacities. For instance, it is Lead Bank in eight out of the 14 districts of Jammu and Kashmir and heads the State Level Bankers' Committee. The Bank plays a constructive role in helping in the implementation of Central and State government schemes. It partners with Srinagar Development Authority for providing financing for commercial properties.

The strategic approach calls for reengineering of the organisation long used to operating on playing on the interest arbitrage derived out of its local presence and national reach. The Bank claimed to have devoted the year 2006-2007 to reinventing successfully at becoming the most socially-relevant commercial bank for economy and business in J&K. Its 2013-2014 annual report makes a specific mention in the Chairman's speech that the bank perceives itself as a developmental institution central to the prosperity of the J&K

State and points out to its efforts at financial inclusion in the rural areas of J&K. The reengineering exercise provides the framework for myriad organisational changes that have been taking place since.

REENGINEERING THE J&K BANK

The reengineering exercise at the J&K Bank aimed at making it more relevant to the people of the J&K State. It recognised that it had to play a developmental role to serve the needs of local entrepreneurs in the neglected areas like horticulture, floriculture, and crafts by getting artisans, small traders and weavers into its borrowing community.

There are several elements of reengineering ongoing besides redefining the business model described earlier in this case study. Some of the other major elements are as under:

- Forming a task force for managing change initiatives
- Reformulating financial model around the needs of the productive sectors of the State of Jammu and Kashmir
- Repositioning brand and identity to reflect the move from the traditional mindset to the look and feel of a new-generation private bank
- Transforming human resource systems to improve workplace culture and environment through training and development of skills
- Setting up performance management system to monitor individual contributions to group achievements and include customer service as a criterion for performance evaluation
- Upgrading branch networks through setting up model branches where servicing government clients and general public is segregated to render better service. These branches are being designed to act as one-stop shop providing the full range of the Bank's services
- Widening delivery channels to include the modern means such as ATMs, Internet banking, mobile banking, online fund transfers, bill payments, mobile vans and door-to-door banking

RISK MANAGEMENT INITIATIVES

J&K Bank has a mandatory committee for risk management comprised of members of the board of directors to supervise the implementation of risk managementpolicies and is assisted by three committees of seniorexecutives. The committees focus on risk management on an enterprise-wide basis and develop integrated risk management systems for efficient management of various types of risks.

Credit risk is done through stringent credit appraisal and approval processes. Credit risk assessment is done on the basis of centralised processing of credit proposals. New standardised formats have been introduced in the corporate and small and medium enterprises segments. Eligible borrowers are subjected to internal credit rating system. There is a credit audit and loan review mechanism to monitor accounts of Rs. 5 crore and above.

Market risk is monitored through a cohesive integrated risk management system particularly in regard to interest rate risk quantification techniques, liquidity management and reporting systems. Operational risk monitoring is done through an operational risk management committee at the apex level. A comprehensive policy for disaster management and business continuity plan is in place.

Overall, the integrated risk management committee of the board is charged with the responsibility of overseeing the policies and procedures for managing credit, market, operational, interest rate and liquidity risks.

REDESIGNING PRODUCT OFFERINGS

The product mix of J&K Bank consists of the traditional and the modern. There are the usual banking services for savings and deposits, loans, tax-saving funds, mutual funds, depository, insurance, and credit card services.

The new products, the Bank claims, come about because the people in the State find them useful. A common thread in the design and development of the new products launched by the J&K Bank could be perceived in the sense that they fulfil the basic economic objectives of the people in the local economy. A building-block approach to product development ensures obtaining low-cost implementation and a cascade of innovations where the various innovations feed upon each other. For instance, catering to the economically-weaker sections of society are the financing for weekly market hawkers, financing of vegetable vendors, loans for craft development, and educational loans for primary and secondary education. Then there are all purpose agricultural term loans, loans for pursuing B.Ed. and M.Ed. courses, housing loans for Leh, etc.

OVERHAULING DELIVERY SYSTEM

The bank branch is the quintessential public face of a bank. The quality of service across the counter ultimately determines what public perception is created. In the new economy, it is also the quality of online services that determine customer satisfaction. Customer-orientation and quality of service are critical success factors in banking. The J&K Bank has been, as a part of its reengineering exercise, attempting an overhaul of its delivery system.

The Bank has an extensive and incomparable reach into the State with branches and service network extending to district headquarters, small towns, and remote areas. This helps in transaction of business particularly that of low-cost deposits and advances to small businesses and to the agricultural sector.

The Bank abolished the district office system and converted them to act as business development and promotion centres focusing them on promotion and sale of the services and products of the Bank. The revamping of the delivery channels by creating business development and promotion centres aims to enhance the quality of customer service. Marketing managers and business promotion officers havebeen placed in all the zones for execution of the marketing initiatives.

The number of ATMs has been steadily increasing and the Bank offers the largest ATM facility as compared to other banks operating in the State. The online banking facility is offered through the branches operating through the Core Banking Solution.

INFORMATION TECHNOLOGY INITIATIVES

Computerisation at J&K Bank started in the mid-1990s. The Bank's website was launched in 1999. The J&K Bank has adopted the Infosys Finacle core banking solution as its platform since 2003. Computerisation has successively covered its branches, number of ATMs has been rising and more online services are offered through improvements in IT infrastructure.

The J&K Bank claims to leverage IT as a strategic tool for its business operations to gain competitive advantage in customer service and improving productivity and efficiency. The IT policy focuses on customer services' enhancement through round the clock availability, multi-channel banking, and use of electronic channels through integrating diverse products and services. Over the years, the Bank has been strengthening multiple delivery channels such as ATMs, anywhere-banking, and Internet and mobile banking. It continues to make efforts at widening the cheque truncation system, merchant payments through mobile banking, and own payment gateway to facilitate e-commerce platform to its customers.

HR INITIATIVES

In its Annual Report, 2006–2007 the J&K Bank reiterated its commitment to making the Bank 'a model employer and ensuring that the Bank provides a workplace, work culture, and work environment that engages the intellectual and emotional commitment of all employees'. The HR initiatives covered a wide range of HR activities such as recruitment, development and learning, work environment and communication, rewards and recognition, health and well-being, balancing work and personal life, and financial security.

The Bank apparently has come a long way since the time when its HR climate was not motivating. A survey in 2003–2004 pointed out that employees were not generally happy with the developmental climate, they were dissatisfied with reward system, felt that creativity was discouraged, and complained that senior managers adopted secretive attitude. Further, the employees felt that the Bank adopted a reactive culture, there was lack of autonomy, inadequate training and career planning and computerization was being introduced haphazardly. All this was happening despite the fact that the employees demonstrated team spirit and high level of trust.

The human resource initiatives under a package called "*Nayi Subah*" (lit. new dawn) launched in April 2007 included:

- Skill advancement programme for employees across all levels.
- Development of specialized cadres for critical function.
- Succession plan for top management.
- Introduction of competency mapping.
- Introduction of performance-based variable pay.
- Performance management system titled "DARPAN".
- New generation organizational setup and designations.

The Jammu and Kashmir Bank Officers Service Manual, 2000 provides the formal documentation for HR. As a part of restructuring the organisational framework, new designations have replaced older ones such as general managers being called presidents, managers as executives, cashier and clerks as banking associates, and peons as banking attendants.

Recruitment on mass scale has taken place over the years augmenting the workforce to handle increased workload owing to widening branch network. Training is a priority area with nearly half the employees undergoing some form of training annually at in-house training institutions and through attending external training programmes. During 2013-14, nearly 6000 employees were imparted training. The emphasis in training and development of skill is on maintenance of high standards of customer service and specialisation. Promotions seem to have been a sore point in HR in the past. During the period 2013-14, 1050 relationship executives and 366 banking associates were appointed. Career progression and succession planning were given attention. More than 1040 promotions were made.

A formal, systematic posting policy envisages that postings of employees and officers shall be uniform, acceptable, and transparent based on rational principles and objective criteria. All postings are done in April and November every year. Employee insurance, regularisation of ad hoc employees, performance-based pay, and career development programmes are some of other components of the HR initiatives.

The Bank claims success of HR initiatives in terms of low attrition rate of employees leaving the organisation.

THE ROAD AHEAD

Indian economy is growing at a steady pace. The banking scenario in India looks to be promising in the near future despite challenges. The Basel III capital regulation has been implemented in India effective April 2013 and phased implementation is to take place till March 2019. Positive regulatory initiatives by government and RBI are expected to lend support to the banking sector. There are challenges ahead including that of maintaining competitiveness and human resources management. New banks are likely to enter the market; widening of financial inclusion is going to lead to creation of non-traditional financial institutions such as payments banks and small finance banks. Banks need a digitally competent workforce to converge diverse platforms like mobile solutions, social media, and biometrics to render seamless and highly customised banking services. This calls for large-scale recruitment as well as retraining of existing employees.

The economy of J&K has been experiencing revival since the past several years after a long phase of destabilisation. The credit absorption capacity of the State offers adequate potential owing to its low level at present. There are many areas of socio-economic development that are attracting increasing attention. Industry and services are looking forward to renewal and stimulation.

After having completed the phase of consolidation J&K Bank is now moving into margin-enhancing growth phase led by the high economic growth of the State, greater financial deepening of the State economy, specialised sectoral lending in rest of the country and more intensive financial intermediation.The geographical near-monopoly and the unique ownership structure of J&K Bank does serve as a guarantee against possible acquisitions moves. At the same time, there is hope that the Indian companies will withstand the competition as they have done in other sectors. The gains made in terms of profitability, growth, efficiency, and productivity need to be maintained. The J&K Bank has achieved relatively lower rate of business growth as compared to the performance of the banking industry. Competitive advantage is never permanent. It needs to be guarded zealously if the Bank is to continue on the path to progress.

Notes and References

1. *A Profile of Banks, 2012-2013*, Reserve Bank of India at *http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/APB30091213F.pdf*
2. "Azad asks J&K Bank to be partner in state's welfare" *Kashmir Observer* Aug 26, 2006.
3. "Business Thrives Amid Kashmir War" *The Christian Science Monitor* Apr 11, 2007.
4. *Economic survey, Jammu & Kashmir,2013-2014* Planning and Development Department, Government of Jammu & Kashmir at *http://www.jandkplanning.com/images/economicsurvey2014/EconomicSurvey2014.pdf*.
5. F. Syed, "Soulless capitalist economy!" *Kashmir Times* June 24, 2007.
6. "Jammu & Kashmir turns paradise for new-age private banks," *Business Standard*, Jan 9, 2014 at *http://www.business-standard.com/article/finance/jammu-kashmir-turns-paradise-for-new-age-private-banks-114010900029_1.html*.
7. J&K Bank Annual Report 2013-2014 at *http://www.jkbank.net/pdfs/annrep/J-&-K-Bank-AR-2014.pdf*.
8. "J&K Bank set to invest Rs. 100 crore in Metlife India" *Business Standard* Jul 2, 2007.
9. "J&K Bank: Facts out, deception continues," *Greater Kashmir*, 14 Aug 2014 at *http://www.greaterkashmir.com/news/2014/Aug/14/j-k-bank-facts-out-deception-continues-10.asp*.
10. "J&K Bank: Living down its image" *Outlook Money* Aug 14, 2002.
11. N. Rohmetra, "Human Resource Development and Information Technology Interface: The Case of Jammu & Kashmir Bank Ltd.," *Human Resource Development: Challenges and Opportunities*ed. N. Rohmetra (New Delhi: Anmol Publications, 2005): 261-283.
12. Official website of J&K Bank at *http://www.jkbank.net/*.
13. "RBI wants Yousuf Khan to stay as J K Bank CMD" *The Economic Times* Dec 21, 2004.

Case 4

On the Job: Strategy Case of Naukri.com*

Info Edge (India) Limited was the first Internet Company to be listed on the Bombay Stock Exchange and the National Stock Exchange on November 21, 2006. The Company was incorporated on May 1, 1995 under the Companies Act, 1956 as Info Edge (India) Private Limited and converted into a Public Limited on April 27, 2006. This was the officio-legal face of the popular job site Naukri.com. *Naukri* is an Indian term meaning service, job or employment. The journey started nearly two decades ago.

THE ENTREPRENEURIAL BUG BITES

Sanjeev Bikhchandani used to work in HMM (now Glaxo SmithKline) in the early 1990s. The offices did not have partitions then and there was open space and everyone could see, hear, and talk to the others. He noticed that whenever the office copy of *Business India* arrived most people would start reading from back to front where there were several pages of recruitment advertisements. He realised that it was not as if everyone was looking for a job. There was just the human tendency to look at jobs and assess where one stood in relation to the job market. Then there were the head-hunters who were constantly looking for prospective candidates on behalf of a few client companies and enticing them with job offers. These jobs were not advertised in formal channels. Even if they were, headhunting was the alternative channel that operated simultaneously. An entrepreneur at heart, Sanjeev thought that if the job offers could be aggregated and matched with job resumes available it could create a big business opportunity. That was in 1990.

Right from school when he would have been 12 or 13 years of age, Sanjeev dreamt of doing MBA, working for a few years, and then striking on his own—atypical young person's dream. He comes from a middle-class family. His father was in government service. Like most middle-class fathers in India, he gave his children good education. Sanjeev studied in St. Columbus School at Delhi and then sat for the IIT entrance. He cleared it but realised that that doing economics from St. Stephens College would be a better option for him: his rank wasn't good, it would take five years to graduate, and medically he was colour-blind. After doing economics from Delhi University in 1984, he got selected as executive trainee with Lintas and worked in advertising for three years. He then sat for the CAT and secured admission into IIM Ahmedabad. Subsequently he was selected in 1989 as a management trainee with GlaxoSmithKline (then HMM) where he worked for a year- and-a-half and then quit.

The next few years were trying and tough as usually happens with entrepreneurs. Sanjeev set up an office in his father's home in the servants' quarter above the garage and paid Rs. 800 monthly rent. He started

* This case has been prepared by Dr. Azhar Kazmi, formerly Professor of Business Administration at the Aligarh Muslim University, India and Dr. Adela Kazmi, Lecturer in Management at Sophia College, Ajmer, India. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation. Reprinted by permission of the authors.

a company and called it Info Edge. Another company was set up with a partner. They worked on salary surveys and database for trademarks. Both were rudimentary jobs if we look at them in today's context. For instance, Sanjeev and his partner would look for trademark applications data from the public library of the trademark registry and put all the data in a format and sell the info package to pharmaceuticals companies looking forward to acceptance or rejection of their trademark applications. Likewise, for entry-level salary surveys they set up interviews for engineering graduates fresh out of college, collected data, put them into databases and then contacted companies.The customised reports were then sold to them at a price of Rs. 5000 each. After some time, Sanjeev and his partner parted company with Sanjeev retaining Info Edge and the trademarks company taken by his partner. Nearly five years of struggle followed.

WHAT IS WWW!

Sometime in October 1996, there was an IT Asia exhibition at Delhi. Sanjeev used to go to see this exhibition and was particularly interested in visiting the small stalls where interesting things were showcased. On one stall, that had www written on it, Sanjeev asked the owner of the stall what that meant. The guy explained it was the World Wide Web. That got him interested. Soon he was learning about Internet and websites and servers and e-mails. He got interested in setting up a website but was told that was not possible as the servers that hosted the websites were all in the U.S. He contacted his brother who by this time was a professor at UCLA. His brother agreed to loan money for paying for hiring a server.

The struggle continued for a few more years. Sanjeev got married; his wife worked for Nestle. That was a great support. He had a two-wheeler as he couldn't afford to buy a car. Those days even IIMA graduates couldn't afford to buy cars unlike today. In between, there were tough times when he had to work part-time at two jobs to make the two ends meet. He taught management courses part-time to earn his keep. But the entrepreneur in him enjoyed the challenges as they helped him to work on his own and set his own priorities. He gathered partners and paid them in company shares as he didn't have cash to pay, asking them to do parts of the job like programming, data entry, and support.

The group of friends purchased a lot of newspapers, opened the job advertisements sections, and asked the data entry guys to enter the data into a format. This floppy was taken to a techie friend and in a week he helped to create a simple website that was called Naukri.com. At that time many of the new Indian websites like *rediff*, *Khoj*, and *Samachar* were focusing on the non-resident Indians in the US. Naukri.com focused on Indians in India. That got the company a lot of attention as Internet was a new thing and the media was writing a lot of stories on it.

Naukri.com got launched in April 1997. In the first year, it got a business of Rs. 2.35 lakh. At that time there were an estimated 14000 Internet users in India (In end-2014 there were an estimated 290 million users growing at 14 per cent). These people could have free access to the website. The companies paid for the recruitment services. In the second year, the revenue jumped to Rs. 18 lakh. At this time, Sanjeev realised he was on to something big.Next year, the revenue jumped to Rs. 36 lakh with a first-time profit of Rs. 1.8 lakh but Sanjeev was yet to draw a salary. By April 2000 they needed more money, got it from venture capitalists, and started investing it in building the infrastructure for the company. By November the same year, the dotcom bust started. The next year came 9/11. Naukri.com—the flagship of Info Edge—was one of the few dotcoms to survive the Internet meltdown of the early 2000s and the post 9/11 impact.

MATRIMONY AND PROPERTY

About a year after Naukri.com was launched, Sanjeev went to meet Anil Lall, a software programmer who was head of technology at Info Edge. He asked Lall whether they could create a matrimonial site. Sanjeev expressed his wish to have one more classified category besides jobs. Lall was given a few details and within a week he had the site Jeevansathi.com up and running. *Jeevan* means life and *saathi* means partner in the Indian languages. Initially everything was offered free. In April 2001, ICICI Ventures was approached for venture funding and they asked Sanjeev to close down Jeevansathi.com and focus on Naukri.com and move to one of the big five auditors. Sanjeev went to his then auditors to thank them and tell them that they were withdrawing. To his surprise, the auditors—Amit and Rohit Tandon—said they themselves were thinking of closing down their business and were planning to enter online business. A deal took place and Jeevansathi.com was partly sold to the Tandon brothers who sold it back to Sanjeev after a few years.

Happenstance and serendipity play no mean role in entrepreneurship and business. Sharad Malik was one of Naukri.com's shareholder and a computer science professor at Princeton. On one of his visits to India, meeting Sanjeev, he just remarked how difficult it was to sell off his ancestral property in Delhi. He asked Sanjeev if he could start a real estate website. And Sanjeev did just that. 99acres.com was launched.

This is, in short, the story of how Info Edge started its journey.

A BRIEF INTRODUCTION TO INFO EDGE

Info Edge (India) Limited (Info Edge) is one of India's leading on-line classifieds company in recruitment, matrimony, real estate, education and related services. It also invests in start-ups in India and abroad. As of March 31, 2014, Info Edge had a network of 58 branch offices located in 42 cities throughout India. The employee strength was above 3000 working in its offices in India and in West Asia.

The vision of Info Edge is "to create world-class platforms that transform lives". The mission statement is: "We will continuously delight our customers in current and new businesses by delivering superior value through enhanced offerings on the internet and other platforms. We will do this by preserving our entrepreneurial spirit and leveraging our financial strength and expertise in building brands, communities, product and technology; sales and service". The company values are five: customer delight, entrepreneurship, knowledge, results and trust.

Info Edge operates in three lines of businesses. Its core business of recruitment which is the first and main business yielding the cash flows for investment into other businesses. The second is the internal portfolio of businesses dealing with online platforms for real estate, matrimony, and education that are growing. The third business is of investing in future through start-ups where the company invests into potential businesses that are in early stages and need funding. Here the activity is hectic as seen in the large number of 297 deals worth US$ 1.6 billion done in 2013.

The annual report 2013–2014 provides an account of its financial performance. During the financial year 2013–2014 Info Edge had total income of about Rs. 550 crore and profit after tax of Rs. 129 crore. For detailed financial data refer to Annexure 1.

STRATEGIC LEADERSHIP AT INFO EDGE

Info Edge, as of October 2014, had eight directors on its board, of which five were independent directors giving boost to its corporate governance. The positions of chairman and managing director are separated. Kapil Kapoor is the non-executive chairman; Hitesh Oberoi is the managing director and chief executive officer. Sanjeev Bikhchandani is the executive vice-chairman. Ambarish Raghuvanshiwas till May 2014 the director, group president (finance) and chief financial officer. Chintan Arvind Thakkar is the designated chief financial officer who has joined in his place.

The management team is headed by Sanjeev Bikhchandani and consists of the heads of business units and functional heads. The team is young, well-educated and professionally qualified. Most of them have been with the company for more than 10 years. Sales function gets a priority among functions to make it possible to market and support the various brands of the company.

THE BUSINESSES OF INFO EDGE

Info Edge is in the online classified business helping people and businesses to connect. In this sense, the purpose of the company is to create a virtual meeting place where people seeking products and services and businesses intending to serve them can meet and transact business. The business model of the company is the typical Internet company model where revenue is earned by charging a fee for providing / exchanging information and / or for advertising products and services. This simple business model can be extended to cover a wide range of activities as the company has been doing over the years.

Some details about its businesses are as below:

- Recruitment is the largest of the businesses that has recruitment classifieds on *www.naukri.com* and *www.naukrigulf.com* and an offline executive search site *www.quadranglesearch.com*. There are related sites one of which is professional networking site *www.brijj.com* and a freshers' hiring site at *www.firstnaukri.com*.
- Matrimony business has the online matrimony classified site *www.jeevansathi.com* and offline Jeevansathi match points.
- The real estate business has the online real estate classified at *www.99acres.com* and a real estate brokerage business *www.allcheckdeals.com*.
- Education business is served through the online education classified on *www.shiksha.com*.

STRATEGIES FOR BUSINESSES

Info Edge visualises that each of its businesses has potential to grow through organic and inorganic routes. The organic growth is perceived in the form of innovation and customisation of services offered and capitalising on creating advertising revenue streams through the company's portals. The company is also on the lookout to exploit opportunities for widening the scope and geographical expansion of existing businesses. Related diversification opportunities exist in extending the online classifieds to other market segments of automobiles, educational services, and industrial products of which the company has already moved into educational services.

The opportunities and threats for Info Edge are closely linked to anything to do with the Internet. For instance, the demographic shift in India's population towards younger age groups is an opportunity as youth are likely to be avid users of the Internet. Growth in the employment markets whether positive or negative depends on the macro economic conditions. At times when the employment markets do well, as happened in the case of IT and ITES, the company stands to benefit. When the prospects of the employment market dim, the company is likely to suffer. The continual improvements in the Internet infrastructure including broadband access, Internet service penetration, falling prices of Internet access, wider availability of Internet facilities, and increasing awareness among the general population of the ease and convenience of using Internet help a lot.

According to a joint study by industry body Internet and Mobile Association of India (IAMAI) and IMRB International, the Internet user base in the country stood at 278 million claimed Internet users and 213 million active Internet users. By December 2014 active Internet users were expected to reach 232 million by December 2014 and 269 million by June 2015. Estimated mobile Internet users in India in December 2014 were 173 million indicating the huge scope of mobile telephony in spreading Internet usage. Mobile-based internet usage is a welcome development for Info Edge. Mobile users are young, mostly urban but increasingly rural, there is increasing use of applications on mobile phones and the trend is likely to accelerate. Another development is the increasing use of hand-held devices such as tablets. All these developments present a huge opportunity to companies such as Info Edge.

Looking to the businesses of Info Edge one can perceive a common thread in terms of the life-cycle needs of people and the potential for using Internet to access information to satisfy those needs. Thus, educational needs are followed by the need to look for a job. A job in hand usually leads to the prospect of marriage. A marriage results in need for housing and so on. When children arrive, they too need education and the life cycle starts all over again. But did Sanjeev Bikhchandani think of his business like that? Quite likely, it seems.

THE PHENOMENON OF NAUKRI.COM

The country has numerous educational institutions and produces a large number of graduates every year. These graduates seek information about the available jobs through different means primarily through the print media, recruitment consultants, and online sources including applying directly to the companies.

Among the usage of Internet, recruitment is the second-most popular use preceded only by E-mail services. Online recruitment has emerged as a popular means of seeking candidates for the corporate employers and recruitment consultants and for job seekers. This is especially true for the most prospective segment of IT and ITES in the employment market in India.

Naukri.com is the most visible brand of Info Edge. The online classifieds and related division that operates the Naukri.com portal is the highest revenue earner. With revenues of Rs 372 crore, Naukri.com is the market leader in the online classified jobs market. Its success has seen the classified business shift dramatically from print to online. It also constitutes a majority of about 74 per cent of Info Edge's revenues. As of October 2014, Naukri.com claimed it had a database of about 39 million registered job seekers and an average of about 13,000 resumes being added daily while about 135,000 resumes were modified daily. These are impressive numbers though there is a possibility that the millions among registered job seekers might not be active users and there could be duplication in registration. Naukri.com is an early mover in the online recruitment services business giving it an edge over its competitors.

Naukri.com is not just a recruitment site. In fact, 90 per cent of the revenues of Naukri.com are derived from B2B from recruiters. This is done through providing access to resume database, job listing and response management, and employer branding and visibility. It is an advertising site as well as it offers panels and banners for advertising that are a rich source of revenue for Info Edge. There is a mobile section for mobile hiring and usage of this access method is growing being 35 per cent in October 2014. Value-added services such as resume writing, resume display, resume flash, and job mails create a repertoire of services for job seekers. Recruiters have a special entry point through their username and password where they can access the databases of resumes, post jobs, manage resumes, and communicate with potential employees about their organisation.

The combination of being an early mover, designing a portal that is continually improved to offer better services to users, backed up by aggressive marketing has made Naukri.com the market leader. There is a virtuous cycle of having higher traffic owing to the presence of a large number of available jobs. Higher traffic creates the possibilities of higher response which in turns attracts more client companies and recruiters. The business strategy for Naukri.com is based on providing new products for recruiters, access through mobile, differentiation through superior search facilities, and back up through customer service. Addition of new features is aimed at keeping the business ahead of its competitors. Some of the features added are career site and response management, personal profiles of recruiters, referral hiring through access to social networks, and semantic searches.

The attractiveness of the online recruitment services has drawn competitors into the field. The online recruitment services in India are also offered by portals such as Monster.com, TimesJobs.com and Shine.com and Indeed besides the professional social network LinkedIn. There are smaller players such as Timesjob.com, Indeed, and Jobsahead.com among several others. The print media continues to remain popular where national dailies such as *The Times of India*, *Hindustan Times*, and *The Hindu* and the government jobs media *Employment News* / *Rozgar Samachar* rule the roost. Recruitment consultants and executive search firms are scattered throughout the metros and even smaller cities and towns in India in large numbers.

Competition is intense especially at the lower end of the market. The ups and downs in the recruitment market heighten uncertainties. There is excessive dependence on the IT and ITES job markets. The possibility of the new entrants offering online recruitment services remains high.

THE PROMISE OF JEEVANSATHI.COM

Matrimonial sites constitute the next big segment of online services after job sites in India. Many of the environmental factors that make job sites popular apply to the case of matrimony sites too. For instance, a younger population is a positive feature of the environment in both the cases. Online matrimonial sites offer the advantages of easy accessibility, interactivity, and low-cost services. After initial hesitation owing to privacy concerns and the risk of being cheated, Indians have started using the online matrimonial services in larger numbers.

Traditionally, Indians have married through arranged marriages. The quintessential matchmakers in different communities have played the role of bringing together families interested in finding brides and grooms. The print media such as *The Times of India* and a number of vernacular newspapers are a big source of matrimonial classifieds. Breakdown of traditional networks, emergence of nuclear families, increased mobility, disconnection from mother communities and younger people looking for wider choice however, have created a large market for online matrimony services.

Info Edge embarked on the online matrimonial services through the Jeevansathi.com portal in September 2004. By that time, the matrimony services market was already crowded. Shaadi.com had a dominating presence in this segment of online services since 1997 being the first-mover but was pushed back by Bharatmatrimony. There are other formidable competitors such as Simplymarry.com, 123matrimonials.com and Rishtaa.com. Jeevansathi.com is No. 3 matrimonial site in the country much behind its rivals with 13 per cent share of the Rs 300 crore online markets. Market segmentation in the matrimonial services business is based on geography (North / South) or communities based on religion, castes and sub-castes. Bharatmatrimony leads in South and the non-resident communities from southern states. Shaadi.com dominates in Punjab and Gujarat and the non-resident Indians from these states. Jeevansaathi.com as yet does not seem to have a clear focus on an identified market segment.

Jeevansathi.com adopts the prevalent business model of matrimony websites of free listing, search, and expression of interest and paid services for establishing contact with a party of interest. It has a few offline centres where clients can walk in for matching services. It also operates franchise centres. It is one of those unique businesses where once a client is served successfully she or he no longer remains a customer. The key to profitability lies in converting a free client to a paid client. Info Edge is adopting an analytics-based approach to improve the strike rate of converting clients to paid ones. This is a difficult proposition and the company is yet to be successful in making the matrimony site business successful.

THE POTENTIAL OF 99ACRES.COM

The emergence of classifieds online services has touched various market segments; among them is the booming market for real estates. Traditionally, buyers and sellers of property have relied on the familiar broker or word-of-mouth information networks for seeking information. Newspaper classified columns also have been popular media for disseminating or accessing information regarding property. In recent years, real estate makes for the largest advertising spend in print media.

Real estate is a growth industry. There are several reasons for the boom in the real estate markets: rising incomes, changes in social structures, family mobility, urbanisation, and availability of home financing are some of the major ones. As compared to the job and matrimony markets, the real estate market has some specific challenges. The real estate market is fragmented; property exchange requires cumbersome paper-work; and it is difficult to establish clear-cut norms leading to opaque dealings and involvement of black money. At some places in India, the property dealing is also marred by the involvement of land mafia and other criminal cabals.

99acres.com was launched in 2005 to serve various participants in the trading and exchange of real estate. Among these are the buyers and sellers of property, developers, builders, and brokers. The portal is comprehensive and provides services for advertising the availability of properties, searching and browsing for properties, and gaining access to other Indian and international sites related to property matters. Listing is paid for by agents and developers and is free for individuals.

As of October 2014, 99acres.com claimed having a database of more than 540,000 real estate listings and with 22000 paying agents and developers. Info Edge aims at its property listing business improving traffic share and keep its growth rate high. For this, 99acres.com tries to improve its number and quality of listings, improving sales team outreach and customer service, enhancing product development, user experience and branding, and using mobile and analytics to improve traffic share. Product development is in the form of offering price trends to customers based on listings, showcasing new projects, and offering verification of listings to improve quality of offering.

For Info Edge, 99acres.com is still a business in making. Despite earning revenue of Rs 76 crore, the loss at EBITDA level was Rs. 4.8 crore. This came about due to continued investments in strengthening products and expanding sales networks. Real estate is perceived as a big business from the viewpoint of advertising so 99acres.com is seen as a prospective business.

Competition to 99acres.com arises from other popular property sites such as Indiaproperty.com, magic-bricks.com, and makaan.com besides, commonfloor.com, and housing.co.in with the first two posing stiff competition to 99acres.com and the print media including the daily newspapers at the national, regional, and local levels. 99acres.com is the leader in traffic share and one of India's first platforms to cater to the real estate market online with 35 to 40 per cent share of the Rs 150 crore online businesses and around Rs 80 crore revenues from this segment and has a pan India listing of properties for sale, purchase and rent spanning 25 plus cities. It brings together builders, brokers, dealers and interested buyers /sellers and connects them over the online medium.

THE POTENTIAL OF SHIKSHA.COM

Shiksha in Hindi language means education. Info Edge launched Shiksha.com in May 2008. The aim was to connect the provider of education to the seeker of education.

Compared to other emerging economies such as China and Brazil, India has a low enrolment rate at the university level. By 2020, the Indian government aims to achieve 30 per cent gross enrolment from the present 18 per cent, which will mean providing 40 million university seats. Traditionally, the government has played the lead role as education provider through public institutions but private sector is increasingly playing a more active role.

India has one of the largest education systems in the world. Demographic trends point out that the population in India may exceed that of China and the middle class may be the largest anywhere in the world. It is the Indian middle class which has education of its children as a very high priority. Their aspiration is to see their children gain higher education in the best of colleges and universities within India and abroad. This offers a unique opportunity to education providers. Info Edge visualised this opportunity to cash on the rising aspirations of the middle class and the post-secondary student.

Education providers provide high revenue in advertising spend to print media. They are also interested in online advertising which is accessible to much of the younger population. Shiksha.com operates on the business model of attracting advertising from education providers both in India and abroad and providing information to prospective candidates.

Shiksha.com provides information on colleges, courses, scholarships and admission information for various courses and colleges. On the other hand, Shiksha.com provides help to institutions to attract high quality and talented students. The focus is on post-graduate programmes and vocational courses in management, engineering, information technology, medicine, law and hospitality besides coaching for entry into institutions. The website is designed as a meeting place for students and alumni and experts in education to interact.

INVESTING IN START UPS

Since Hitesh Oberoi took over as the CEO and managing director of Info Edge in 2010, Sanjeev Bikhchandani has been concentrating on external investments. What he does is basically to replicate Naukri.com's success in other digital businesses. Sanjeev thought of investing in other companies around 2008 as the core business of recruitment services was generating plenty of cash.

Sanjeev has an eye for opportunity and then moves fast to convert that opportunity into business. He invests only through Info Edge to avoid conflict of interest. As an investor he offers only advice placing faith in the ability of entrepreneurs to run their businesses the way they think it best to run them. The company invested into nine businesses vetting them out of a population of 300 odd proposals that came. Six businesses in which Info Edge has stakes as of October 2014 are: Zomato, Meritnation, PolicyBazaar, MyDala, Canvera, and Happily Umarried. In Zomato and Meritnation, Info Edge has a controlling stake. Three businesses failed to work and Info Edge had to write off Rs. 35 crore of its investments into StudyPlace, 99labels, and Floost.

Sanjeev sees the acquired businesses as future opportunities that would complement Naukri.com's success. He shared in an interview to a business magazine that by 2018 he wants to see four or five of his businesses—either owned fully or substantially—to have a billion-dollar market capital each if they were to list on the stock exchange.

FUNCTIONAL ACTIVITIES AT INFO EDGE

The major sources of funds for Info Edge are the subscription fee charged from clients for recruitment, matrimonial, real estate services and education services. The company continues to maintain healthy cash reserves that fund its investments into entrepreneurial ventures. The expenditure takes place on different activities such as advertising, marketing and promotion charges, employee salaries and sales incentives, administrative costs and costs of maintaining the network and system infrastructure, such as internet connection and server hosting charges. The company is a consistent dividend payer to its investors.

The technology used by Info Edge is Internet and information technology that remains in the process of continual development. Research and development was not a priority area and was mainly concerned with upkeep of hardware, optimising usage of existing software applications and search engines. But service design is critical to offering better service on the portals. Innovations are mainly in terms of adding to the existing service packages. For instance, online job fair was an idea implemented on Naukri.com while provision of mobile content has been tried out on all the four portals. There is presence of risk in breakdown of services owing to interruptions in networks and systems. Since online services are operated externally there is risk of hacking taking place. Disaster recovery systems also need to remain in working condition to forestall risks of breakdown.

Brand management is critical to the Internet-based services. Naukri.com is rated as the top job site in India on the basis of relevant statistics by research agencies such as Comscore, Alexa, Juxt Consultant, and

Quantcast. It has launched several successful advertising campaigns for instance “name calling’ run by good ad agencies such as FCB Ulka. Naukri.com is a highly visible brand and the brands of Jeevansathi.com and 99acres.com have made good progress but not yet reached the visibility of Naukri.com. New products are introduced regularly to stay ahead of competition. Some of these involve complex analytics and research on consumer behaviour, and the positive aspects of competing products. Building brand and creating customer recall is a continual activity. Heavy marketing and advertising expenditure is required to support the development of brand equity. Nearly Rs. 86 crore was spent in the financial year 2013-2014 for advertising and promotion of newer brands and sustenance of the older ones.

The human resource function at Info Edge is critical as the company is operating in the service business. The number of employees has been steadily increasing from 870 in 2006 tomore than 3000 in October 2014. A formal induction programme has been put in place for new recruits. Training is focused on continual upgrades of functional and domain knowledge across disciplines. Continual addition has taken place at the senior and middle levels in functions such as business development, finance, marketing, product, and technology. There is a human resource information system that helps to maintain employee records and facilitates report generation for analysis. An in-house newsletter ‘Inside Edge’ helps to disseminate current events and major developments to employees. There is an employee stock option plan in operation to motivate and involve employees in sharing wealth generation.

ONLINE CLASSIFIEDS SERVICES

Consequent to the development of the World Wide Web, and the opening up of the Internet to commercial users, classified advertising also began to appear on the web in ever-expanding amounts. Online classifieds are probably as old as Internet news groups.

Globally, in the mid-1990s, web-based services that systematically targeted the three major classified advertising categories of employment, automobiles and real estate were established by computer software giants such as Microsoft and Internet upstarts alike. Employment websites such as Seek, MyCareer and CareerOne were attractive both to job seekers and HR departments of companies as these provided some unique benefits such as resume databases and searching services.

The new media of online classifieds scored over the print media classifieds in terms of relatively better and more convenient, fast and cheap way for prospective employers and employees, particularly in the young socially and geographically mobile professional market segment, to check each other out. At LG Electronics, a majority of recruitments were done through online job sites such as Naukri.com. DLF short listing of management trainees and candidates for higher positions had all moved to job portals such as Naukri.com. HR managers claim to have brought huge reductions in recruitment costs by using online classifieds services.

What we observe in the phenomenon of online classifieds services is the trend of disintermediation that characterise the ‘new’ services economy whereby ‘middlemen’ in various service industry value chains are by-passed and service industries and business models are altered and restructured. Importantly, these changes are ‘client-driven’ to the extent that people are choosing to use ‘new’ media in new ways to get better services and an expanded range of opportunities for social connection.

The aesthetics of classified advertising are also changing as the possibilities for creative inputs are also expanded. In online environments classified advertising can be much more that the analogue print-equivalent to short text messaging we presently associate with mobile phones. In other words, the efficiency and productivity gains that capital can derive from the adoption of networked communications are only one aspect of a far larger story of complex social change.

The online classifieds services have been growing at a scorching pace globally as well as in India. Classifieds have been a perennial source of revenue to newspapers most of which invariably have classified columns. From the old to the new media, online classifieds services have emerged to cater to myriad purposes:

hunting for jobs, buying used cars, looking out for rented apartments, seeking life partners or even establishing intimate personal relations. The variety of uses expand to cover hitherto untouched areas such as online education, online web logging or blogging, social and business networking, travel, and so on.

THE FUTURE OUTLOOK

The future of an Internet-based services company is intricately linked to the Internet at one end and to the markets they serve at the other. Growing Indian economy, rising Internet penetration, and increasing sophistication of usage are positive features on the horizon. Mounting competition from late-movers leveraging on the advantages of latest technologies is a big threat. Print media that is going to take the major brunt of movement of classified advertising to online classifieds services may hit back by more aggressively going online itself and installing search engines to make their own versions of online classifieds services.

Recruitment services markets are likely to remain strong as most companies are growing and attrition rates in some industries are high requiring continual replenishment of human resources. Naukri.com retains its premier position and horizontal growth in terms of geography as well as vertical growth in terms of service repertoire offers good prospects. Yet, downturns in the recruitment markets, as have happened with the IT and ITES markets do hurt the prospects. Stunted economic growth hurts the employment markets badly and Naukri.com suffers. In recent years, the revenue from Naukri.com has been growing far more slowly than other ventures of Info Edge combined. Competitors may be behind but almost all of them are part of business groups that are larger than Info Edge.

Matrimonial service markets are likely to experience tough competition from existing players as well as new entrants. Jeevansathi.com remains a laggard being at third place among competitors and with just 13 per cent market share of the Rs. 300 crore-market in 2013. Real estate service markets are still relatively less explored and thus offer good prospects but with considerable challenges ahead. 99acres.com is doing well with leading the market at about 40 per cent share of the Rs. 150 crore-market in 2013.

Opportunities exist or could emerge for developing businesses in future. Shiksha.com the prospective education portal about which not much is known as yet may prove to be another winner for Info Edge. The creation of new ventures related to business networking modelled on LinkedIn and expansion of offline offerings of the Company remain top priorities.

Since Info Edge is a public company, its success is closely watched. The business metrics may not really be technical such as number of hits on the portals but the share value on the stock exchanges. Serendipity has played a big role at times in Naukri.com's success: the funding came when it was required so badly; and it came just before the dotcom bust happened in 2000; Bikhchandani could get dedicated and committed partner and retains almost all of them. But there were failures too: Indiaventure2000 and Roltanet were started in 2000 and had to be closed down. For the first five years, Info Edge did not launch resume database services that today accounts for a major part of its revenue.

The entrepreneurial zeal of the tough survivor of the dotcom bust Sanjeev Bikhchandani lives on though considerably muted with ageand experience. He is considered nowto be more of an ideas man and the public face of Naukri.com while members of the management team led by Hitesh Oberoi, COO, run the day-to-day show. The ambition to make Info Edge a 'world-scale' company remains to be fulfilled. Sanjeev Bikhchandani has become an inspiration to budding Indian entrepreneurs.

Digital space in India is attracting increasing attention and investments in recent years. Competition is becoming more intense. Expectations of customers are on the rise. Technology is also changing fast. India's internet-driven economy is expected to grow by over Rs. 10 trillion by 2018 according to Internet and Mobile Association of India and its contribution to the national GDP is also likely to grow. India is among three world's countries where seven Internet companies have a billion plus dollars valuation. Info Edge is among them along with MakeMyTrip.com, Justdial, Flipkart, Snapdeal.com, Partm.com and InMobi.com. Looking back, Sanjeev Bikhchandani has this to say: "We not only created wealth but also built an institution". Is it a tall claim or a realistic assertion? Only time can tell.

Notes and References

1. Info Edge corporate website at *http://www.infoedge.in*; Info Edge Annual Report 2013-2014 at *http://www.infoedge.in/pdfs/annual-report-2013-14.pdf*; Info Edge corporate presentation, October 2014 at *http://www.infoedge.in/pdfs/corporate-presentation-oct2014.pdf*; All websites retrieved January 15, 2015.
2. For writing about the story of entrepreneurship at the beginning of the case, we have relied mainly on the interview of Sanjeev Bikhchandani managing director and CEO of Info Edge (India) Ltd. by the editors of *MoneyLIFE*, Sucheta Dalal and Debashis Basu printed as "The amazing story of the making of Naukri.com" Jan 24, 2007 available at *http://in.rediff.com/money/2007/jan/24inter.html*. Retrieved February 20, 2008.
3. K. Mitra, "Dotcom's poster boy" *Business Today,* Jan 13, 2008, p. 70-77
4. D.S. Janal, *Online Marketing Handbook* (New York: Van Nostrand Reinhold / International Thompson Publishing, 1995).
5. A. Tommlinson, "The many benefits of online job boards,"*Canadian HR Reporter* 15, no. 13 (2002): 17-19.
6. C. Spurgeon, "Classified Advertising and the "new" services economy: Implications for newspapers," *Australian Journalism Review* 25, no. 2 (2003): 51-62.
7. "Bikhchandani's search for the next big Internet idea," *Business Standard*, March 20, 2013 at *http://www.business-standard.com/article/companies/bikhchandani-s-search-for-the-next-big-internet-idea-113031900634_1.html*. Retrieved January 24, 2015.
8. "Why Sanjeev Bikhchandani, the Naukri man, wants to be a builder and funder with Info Edge," *The Economic Times*, Jan 15, 2015 at *http://articles.economictimes.indiatimes.com/2015-01-15/news/58108918_1_zomato-deepinder-goyal-pankaj-chaddah/1*. Retrieved January 24, 2015.
9. "Internet in India 2014," 1 November 2014 available at *http://www.iamai.in/rsh_pay.aspx?rid=4hjkHu7GsUU=*. Retrieved January 19, 2015.
10. "Info Edge's Sanjeev Bikhchandani shares his slip-ups on the path to success," *Business Today*, April 24, 2014 at *http://businesstoday.intoday.in/story/info-edge-sanjeev-bikhchandani-on-slip-ups-suceess/1/205528.html*. Retrieved January 20, 2015.
11. "Trying on new hats," *Business Today*, May 11, 2014 at *http://businesstoday.intoday.in/story/info-edge-looks-for-newer-avenues-of-growth-amid-slowdown/1/205365.html*. Retrieved January 20, 2015
12. "Why Sanjeev Bikhchandani, the Naukri man, wants to be a builder and funder with Info Edge," Jan 15, 2015 at *http://articles.economictimes.indiatimes.com/2015-01-15/news/58108918_1_zomato-deepinder-goyal-pankaj-chaddah*. Retrieved January 25, 2015.

ANNEXURE 1
INFO EDGE (INDIA) LIMITED
Standalone Financials for period FY 2003-2004 through FY 2013-2014

BALANCE SHEET	As at 31-Mar-04	As at 31-Mar-05	As at 31-Mar-06	As at 31-Mar-07^	As at 31-Mar-08	As at 31-Mar-09	As at 31-Mar-10	As at 31-Mar-11	As at 31-Mar-12	As at 31-Mar-13 ^	As at 31-Mar-14
LIABILITIES											
Equity Share Capital	20.80	62.39	218.36	272.95	272.95	272.95	272.95	545.90	545.90	1,091.81	1,091.81
ESOP Outstanding	–	1.58	6.25	4.85	17.58	28.33	26.65	30.62	40.52	53.63	28.02
Reserves and Surplus	58.66	61.94	22.72	1,856.96	2,391.10	2,966.17	3,520.71	4,053.29	5,157.67	5,508.91	6,501.76
Sub Total	**79.46**	**125.91**	**247.33**	**2,134.76**	**2,681.64**	**3,267.45**	**3,820.31**	**4,629.81**	**5,744.09**	**6,654.35**	**7,621.59**
Secured Loans	0.74	0.76	1.81	3.83	4.42	2.97	5.70	6.74	6.60	9.47	10.17
	–		–								
Current Liabilities	–		–								
Deferred Sales	47.32	119.05	255.10	477.58	628.07	494.93	532.93	894.66	1,189.03	1,212.19	1,395.03
Other Current Liabilities	24.34	51.16	102.89	186.89	347.71	210.49	258.90	320.97	372.68	459.45	546.23
Provisions	2.19	14.16	24.63	39.42	44.77	60.88	88.14	142.09	162.05	170.73	242.01
Sub Total	**73.85**	**184.37**	**382.62**	**703.89**	**1,020.55**	**766.30**	**879.97**	**1,357.72**	**1,723.76**	**1,842.37**	**2,183.27**
Total	**154.05**	**311.04**	**631.77**	**2,842.48**	**3,706.61**	**4,036.72**	**4,705.98**	**5,994.27**	**7,474.45**	**8,506.19**	**9,815.03**
ASSETS											
Net Block	15.63	58.78	94.88	101.54	318.14	301.48	287.72	538.74	531.13	907.63	853.99
Capital Advances	0.77	1.27	–	2.01	63.40	82.94	69.26	154.24	159.29	156.71	158.43
Deferred Tax Asset	0.83	(1.72)	(2.37)	6.72	11.29	19.09	33.74	40.67	41.73	44.85	63.54
Investments	5.18	20.76	126.02	2,180.30	2,653.83	195.20	1,276.27	2,968.70	3,813.88	4,246.95	6,151.85
Advance recoverable from Esop Trust	–	–	16.29	16.29	13.34	16.25	19.72	13.40	(0.03)	(0.02)	(0.30)
	–										
Current Assets	–										
Sundry Debtors	6.66	8.72	12.22	22.58	35.62	38.07	59.57	38.85	35.92	44.58	50.34
Cash and Bank balances	114.42	156.22	321.00	415.16	484.54	3,218.08	2,777.14	2,037.47	2,661.95	2,801.24	2,311.21
Loans and Advances	10.57	67.00	63.42	97.87	126.46	165.61	182.56	202.20	230.58	304.25	225.97
Sub Total	**131.65**	**231.94**	**396.65**	**535.61**	**646.62**	**3,421.76**	**3,019.27**	**2,278.52**	**2,928.45**	**3,150.07**	**2,587.52**
Miscellaneous Expenditure	–	–	0.30	–	–	–	–	–			
Total	**154.05**	**311.04**	**631.77**	**2,842.48**	**3,706.61**	**4,036.72**	**4,705.98**	**5,994.27**	**7,474.45**	**8,506.19**	**9,815.03**

Summary Financials

Particulars	FY 03-04	FY04-05*	FY 05-06	FY06-07^	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13^	FY 13-14
Recruitment Solutions	191.64	436.74	779.52	1,277.02	1,964.27	2,116.46	1,953.87	2,425.00	3,042.02	3,366.73	3,713.31
Other Verticals	–	3.80	44.54	118.68	225.12	335.20	368.35	511.20	714.35	982.27	1,338.04
Other operating income							14.48	3.92	14.46	23.58	7.39
Net sales	**191.64**	**440.55**	**824.05**	**1,395.69**	**2,189.39**	**2,451.66**	**2,336.70**	**2,940.12**	**3,770.84**	**4,372.58**	**5,058.74**
Increase Y o Y		130%	87%	69%	57%	12%	–5%	26%	28%	16%	16%
Other income	3.09	10.63	16.50	75.94	207.25	286.30	305.66	278.82	394.57	464.94	432.45
Total income	194.72	451.17	840.55	1,471.63	2,396.64	2,737.96	2,642.36	3,218.94	4,165.41	4,837.52	5,491.19
Increase Y o Y		132%	86%	75%	63%	14%	–3%	22%	29%	16%	14%
Costs											
(a) Network & Other Charges	31.78	52.78	30.11	58.99	60.53	90.41	89.28	100.38	93.17	139.40	160.22
(b) Staff Cost	62.88	111.10	280.43	492.36	746.28	933.88	870.99	1137.12	1369.95	1672.17	1965.50
(c) Advertising and Promotion Cost	19.95	93.24	184.24	297.62	481.24	433.20	374.04	380.25	515.97	576.50	662.48
(d) Administration and Other Expenses	32.41	55.59	108.03	181.39	266.55	341.83	321.95	341.45	368.75	510.27	626.40
Total costs	**147.02**	**312.71**	**602.81**	**1,030.36**	**1,554.60**	**1,799.32**	**1,656.26**	**1,959.20**	**2,347.84**	**2,898.34**	**3,414.60**
Increase Y o Y		113%	93%	71%	51%	16%	–8%	18%	20%	23%	18%
EBIDTA	**47.70**	**138.47**	**237.74**	**441.27**	**842.04**	**938.64**	**986.10**	**1,259.74**	**1,817.57**	**1,939.18**	**2,076.59**
% EBIDTA	24.5%	30.7%	28.3%	30.0%	35.1%	34.3%	37.3%	39.1%	43.6%	40.1%	37.8%
Increase Y o Y		190%	72%	86%	91%	11%	5%	28%	44%	7%	7%
Operating EBIDTA	44.61	127.84	221.24	365.33	634.79	652.34	665.96	980.92	1,423.00	1,474.24	1,644.14
% Operating EBIDTA to Net Sales	23.3%	29.0%	26.8%	26.2%	29.0%	26.6%	28.7%	33.4%	37.7%	33.7%	32.5%
Increase Y o Y		187%	73%	65%	74%	3%	2%	47%	45%	4%	12%
Depreciation	7.20	11.13	27.56	46.19	55.50	71.10	61.07	71.15	76.61	94.46	173.70
Interest	0.10	0.10	0.12	0.26	0.39	0.35	0.54	0.77	0.67	0.95	1.00
Amortisation	1.57										
Exceptional item $							37.70	3.75	3.53	292.87	26.01
PBT	**38.83**	**127.24**	**210.07**	**394.82**	**786.14**	**867.19**	**886.79**	**1,184.07**	**1,736.76**	**1,550.90**	**1,875.88**

% PBT	19.9%	28.2%	25.0%	26.8%	32.8%	31.7%	33.6%	36.8%	41.7%	32.1%	34.2%
Increase Y o Y		228%	65%	88%	99%	10%	2%	34%	47%	-11%	21%
Operating PBT	35.74	116.62	193.57	318.88	578.89	580.89	581.13	905.25	1,342.19	1,085.96	1,443.43
% Operating PBT to Net Sales	18.7%	26.5%	23.5%	22.8%	26.4%	23.7%	24.9%	30.8%	35.6%	24.8%	28.5%
Increase Y o Y		226%	66%	65%	82%	0%	0%	56%	48%	–19%	33%
Tax	14.47	33.41	77.25	124.15	231.27	270.33	317.49	381.41	510.53	528.44	590.94
Exceptional item ^^								(37.06)	0.00	0.00	0.00
PAT	**24.36**	**93.84**	**132.82**	**270.67**	**554.87**	**596.86**	**569.30**	**839.72**	**1,226.23**	**1,022.46**	**1,284.94**
% PAT	12.5%	20.8%	15.8%	18.4%	23.2%	21.8%	21.5%	26.1%	29.4%	21.1%	23.4%
Increase Y o Y		285%	42%	104%	105%	8%	–5%	48%	46%	–17%	26%
EPS in Rs (Basic & Diluted)	**1.18**	**1.50**	**6.08**	**11.31**	**20.33**	**21.87**	**20.86**	**15.38**	**22.46**	**9.36**	**11.77**
No. of Equity shares	20,796,395	62,389,185	21,836,202	27,295,256	27,295,256	27,295,256	27,295,256	54,590,512	54,590,512	109,181,024	109,181,024
Face value of Equity share (INR)	1	1	10	10	10	10	10	10	10	10	10

^The Company had made an initial public offering of its equity shares in FY06-07 and did a 1:1 bonus in September, 2010.
* In FY 04-05 there was an exceptional charge of Rs 90.57 million pertaining to ESOP's.
If adjusted for the above, the PAT in FY04-05 would be Rs 3.27 million and the EPS Rs 0.05.
$ pertains to a write-off of investment in Studyplaces.com.
^^ pertains to gain on sale of listed security
All monetary figures in Rs. million.

Source: Summary Financials and Balance Sheet June 2014 at *http://www.infoedge.in/pdfs/SummaryFinancials.pdf*. Retrieved January 17, 2015

Case 5

Strategy Case of the Rajasthan Shiksha Karmi Project*

The Rajasthan *Shiksha Karmi* Project (SKP) is an illustration of an innovative effort at tackling the daunting challenge of bringing education to the doorstep of children who live in the remote villages of an educationally backward state of Rajasthan in India. This case study describes SKP from the strategic management viewpoint for the purpose of demonstrating how it can be applied in a non-corporate context.

A BIRD'S EYEVIEW OF THE EDUCATION SYSTEM IN INDIA

In ancient times, India had the Gurukula system of education in which anyone who wished to study went to a teacher's (Guru) house. The modern school system was brought to India, including the English language, originally by Lord Thomas Babington Macaulay in the 1830s. The Uttar Pradesh Board of High School and Intermediate Education was the first Board set up in India in the year 1921 with jurisdiction over Rajputana, Central India and Gwalior. In 1929, the Board of High School and Intermediate Education, Rajputana, was established. Later, boards were established in some of the states. In 1952, the constitution of the board was amended and it was renamed Central Board of Secondary Education (CBSE).

For several years after independence, education in India remained a privilege for a select few. It was in the 1960s that a large number of government and private schools came up. That was also the period when the government schools started losing pre-eminence and the perception grew that these were for the poor and underprivileged, and children from better-off families enrolled in private schools. For the three decades of 1970s through 1990s the primary focus of government policies on education was to get children into schools and make them stay there. The "gross enrolment ratio" became the favourite measure of effectiveness of government educational programmes.

In recent times, several major announcements were made for developing the poor state of affairs in education sector in India, the most notable ones being the National Common Minimum Programme (NCMP) of the United Progressive Alliance (UPA) government. The announcements were as follows:

(a) To progressively increase expenditure on education to around 6 percent of GDP.
(b) To support this increase in expenditure on education, and to increase the quality of education; there would be an imposition of an education cess over all central government taxes.

---

* This case has been prepared by Dr. Azhar Kazmi, formerly Professor of Business Administration at Aligarh Muslim University, Nabila Kazmi, postgraduate student at Azim Premji University and Dr. Adela Kazmi, Lecturer in Management, Sophia College, Ajmer. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of administrative or managerial situation.

(c) To ensure that no one is denied of education due to economic backwardness and poverty.
(d) To make right to education a fundamental right for all children in the age group 6–14 years.
(e) To universalise education through its flagship programmes such as *Sarva Shiksha Abhiyan* and Mid-Day Meal.

Exhibit 1 presents some revealing statistics related to primary education in India.

Exhibit 1 Some Revealing Statistics Related to Primary Education in India

Primary school participation, Gross enrolment ratio (%) 2008–2012*, male	112
Primary school participation, Gross enrolment ratio (%) 2008–2012*, female	111.9
Primary school participation, Net enrolment ratio (%) 2008–2012*, male	98.8
Primary school participation, Net enrolment ratio (%) 2008–2012*, female	98.5
Primary school participation, Net attendance ratio (%) 2008–2012*, male	85.2
Primary school participation, Net attendance ratio (%) 2008–2012*, female	81.4
Primary school participation, Survival rate to last primary grade (%) 2008–2012*, admin data	–
Primary school participation, Survival rate to last primary grade (%) 2008–2012*, Survey data	94.6

UNICEF data available at *http://www.unicef.org/infobycountry/india_statistics.html#26*. Retrieved Jan 06, 2015.

The Legal and Policy Framework

The Constitution of India designated elementary education as a State subject which was later amended to being a concurrent subject enabling joint participation of the Central and the State governments. The landmark policy initiatives are the enunciation of the National Policy on Education, 1968, 1986, revised policy of 1992, the 86th amendment to the Constitution that made free and compulsory education a fundamental right for children aged 6 through 14 and the 93rd amendment of 2005 inserting Article 15 that enables the State to make special provisions for members of the scheduled castes, scheduled tribes and socially and educationally backward classes for admission to all educational institutions, including private unaided institutions, except minority institutions. The right to education law was enacted by Parliament in 2009 by inserting Article 21A to provide free and compulsory education to children between 6 and 14 years.

The National Policy on Education, 1986, as modified in 1992, emphasised three aspects in relation to elementary education as below:

- Universal access and enrolment
- Universal retention of children up to 14 years of age, and
- Substantial improvement in the quality of education to enable all children to achieve essential levels of learning.

The task of implementing the policy lies with the States and Union Territories, and the Centre monitors its implementation.

The Educational Administration Structure in India

The Ministry of Human Resource Development (MHRD) is responsible for the development of human resources. The ministry is headed by the cabinet rank minister. The administrative matters are looked after by a secretary-level Indian Administrative Services officer for each of the two departments of school education and literacy and the higher education. The Central Advisory Board of Education (CABE) is the highest advisory body to advise the Central and State governments in the field of education.

At the state level, state departments or secretariats of education support state ministries of education, which are accountable to the chief minister. The district educational officer is responsible to the state department for implementing and supervising elementary education. In addition, block education officers serve as inspectors and supervisors. Locally elected bodies at the district, block, and village levels share the responsibilities of elementary education.

Challenges to Elementary Education

The educational system in India is divided into elementary, secondary, vocational, higher, technical, medical, legal, teacher, distance and adult education sectors. While all these sectors have their own unique challenges and problems, the elementary education sector is plagued by a host of problems such as low number of schools in proportion to the population, lack of adequate facilities, high dropout rate, lack of motivation among teachers and high rate of absenteeism, inadequate supervision by education bureaucracy, politicisation, and low quality of education imparted.

The policy initiatives have been implemented through various programmes and schemes over the years notable among them being: Operation Blackboard (1987), District Primary Education Project (DPEP-1993), *Sarva Shiksha Abhiyaan* (literacy movement for education for all; also called the National Literacy Mission-2001) and Right to Education Act (2009).

THE EDUCATIONAL SCENARIO IN RAJASTHAN

Rajasthan shares the challenges and problems with other states in India. And like other states, there have been several initiatives over the years with varying level of success.

The State of Rajasthan

The largest State of India, Rajasthan covers vast geographical area of 342239 sq. km. or 10.4% of India's total area in north-western India bordering Pakistan on the West and other Indian states on the other three sides. It had a population of 6.8 crore in the official 2011 census of India. The gender ratio was 926 females to 1000 males. There are 222 cities and towns and more than 41000 villages in its 33 administrative districts and 25 parliamentary constituencies. The population is predominantly Hindu who account for 92% of the population divided into the ancient castes such as the Brahmins and *Vaishyas* as well as the warrior caste of *Rajputs*. There are agricultural castes such as *Jats* and *Gurjars* and tribes such as *Meena, Bhil, Garasia, Sansi,* and *Kanjar*. *Rajasthani Muslims* make up 4%, *Sikhs* 1.5% and *Jains* 1.5% of the population. Rajasthan has rich and colourful history with abundant repository of arts and culture making it a popular tourist destination. Basically an agricultural and pastoral economy, the state is endowed with rich mineral resources. Yet, Rajasthan has the dubious distinction of being clubbed together with some other Indian States in a pejorative term called the '*bimaru* states' (*bimar*, lit. sick); the other sick states being Bihar, Madhya Pradesh, and Uttar Pradesh owing to bad economic performance and deplorable social and human development indicators.

Management System for Primary Education

The State of Rajasthan was formed in 1949 by unification of a number of principalities each of which had its own education system. In 1950, the directorate of primary and secondary education was established at Bikaner that was bifurcated in 1997 into directorate of primary education and the directorate of secondary education. Following the adoption of the *Panchayati Raj* system in 1959, the management of primary education was decentralised to the level of district-level (*Zilla Parishad*) and block-level (*Panchayat Samitis*).

Exhibit 2 Management System for Primary Education in Rajasthan

Level	*Political*	*Administrative*	*Technical*
Central	Government of India	Department of Education, Ministry of Human Resource Development	NCERT, NIEPA, NCTE and NLMA
State	State ministry of education	Department of Elementary Education and Directorate of Literacy and Continuing Education at Bikaner	State Literacy Mission Authority (SLMA) Chairman, Executive Committee of SLMA & Chief of Rajasthan, School Education of Rajasthan
District	*Zilla parishad*	District Education Office, District *Sarva Shiksha Abhiyaan* Society	DIET, *Zila Saksharta Samiti* (ZSS)
Block	*Panchayat samiti*	Additional development officer cum block elementary education officer and School inspectorate	Block Coordinators
Cluster	–	Nodal *Prerak*	Nodal Continuing Education Centre (NCEC)
Village	*Gram panchayat / Sarpanch*	Head Master or Head Teacher and Village education committee, Prerak AEC	AEC (Adult education centre) *Prerak* (Village Level)

Information available at the website of Education Department of the Government of Rajasthan at *http://www.rajliteracy.rajasthan.gov.in/administrative-structure.html*. Retrieved Jan 5, 2015.

The state-level department of elementary education has jurisdiction over two branches of state and autonomous institutions. There are two state institutions of directorate of elementary education at Bikaner and the directorate of literacy and continuing education at Jaipur. The autonomous institutions of the Rajasthan Primary Education Council, Rajasthan *Shiksha Karmi* Board, Rajasthan State Textbook Corporation and the Rajasthan *Madarsa* Board all situated at Jaipur. Exhibit 2 presents the management system for primary education in Rajasthan. Exhibit 3 presents some salient statistics related to the state of elementary education in Rajasthan.

Exhibit 3 Some Statistics Related to Elementary Education in Rajasthan

Enrolment Data in Rajasthan (in '000):
Total enrolment up to upper primary in 2010-11 was 43,141, out of which 25,196 were boys and the rest 17,945 were girls

Literacy Rate in Rajasthan (2011):
Male Literacy Rate: 80.5%
Female Literacy Rate: 52.7%
Overall: 67.1%

State budget allocation to elementary education in Rajasthan (2014-15):
Provision of Rs.162.50 crore for 3.50 lakh poor students for study in the private schools under Right to Education Act.
Per child expenditure (2009-10): Rs. 9,192

Number of registered schools in Rajasthan (2013-14):
Government Primary Schools 47524
Government Upper Primary Schools 26750

Teacher Data:
Percentage of teacher posts filled up against the total post sanctioned is 84.21 percent, out of which, 90.46 percent teachers post filled up in private school and 80.35 percent in government school in the year 2010-11.

Composite Educational Development Index Ranking
18^{th} rank in 2005-06 out of 33 States and Union territories of India for primary education
25^{th} rank in 2006-07 out of 33 States and Union territories of India for primary education
25^{th} rank in 2012-13 out of 36 States and Union territories of India for primary education
Rajasthan slipped from 23rd position to 25th with an EDI score of 0.572 in the year 2012-13

Source: Information available at the website of Education Department of the Government of Rajasthan at *http://www.rajshiksha.gov.in/* Retrieved Jan 5, 2015 and DISE data.

Challenges to Primary Education in Rajasthan

Countries and regions around the world face similar challenges such as lack of finances in tackling the problems in education. The various states in India also deal with similar challenges like the lack of political commitment, insufficient infrastructure for education, low quality of education, and stifling bureaucracy. Rajasthan, in addition to all of these, faces the challenges of being endowed with an inhospitable ecological and physical environment with extremes of weather, deeply embedded negative attitude to education particularly girl education, social conservatism, practice of early and child marriages, apathetic local communities, politicisation of appointment and transfer of teachers and neglect of education by successive political establishments including those during the pre-independence period. Incidentally, the transfer of school teachers as is the case of other government officials has turned out to be a lucrative proposition for the politicians in power and the media often refers to it as the 'transfer industry'. There is also the tendency of politicians to announce populist schemes devoid of much content resulting in proliferation of schemes that are in much need of being integrated.

Despite formidable challenges, Rajasthan has made impressive strides in the field of primary education. The *Rajasthan Human Development Report*, 2002 noted that the improvement in literacy rate recorded by Rajasthan between 1991 and 2001 is the highest in India. The state is home to about 68 million people, almost 50 per cent of whom are under the age of 18 years (Census 2011). Literacy levels in the state rose from 38.6 percent to 67.68 percent, with literacy rate for males moving from 54.99 percent to 76.28 percent and for females from 20.44 to 51.18 percent. Yet, the biggest challenge comes from the wide disparities in terms of social groups. Not only is the growth in absolute terms not impressive, the female population residing in remote areas emerges as the most disadvantaged group.

In Rajasthan several major programmes have been introduced over the years to improve the formal education system, and/ or to facilitate access to education. These are:

- Non-Formal Education Programme
- *Shiksha Karmi* Project
- *Lok Jumbish Pariyojana*
- Rajiv Gandhi *Swarna Jayanti Pathshalas*
- District Primary Education Programme (DPEP)
- Right to Education Act (RTE)

Exhibit 4 provides some relevant information related to these projects.

Exhibit 4 Grassroots Education Projects in India and in the State of Rajasthan

Sarva Shiksha Abhiyaan (SSA-lit. education for all campaign) SSA is Government of India's flagship programme for achievement of Universalization of Elementary Education (UEE) in a time bound manner, as mandated by 86th amendment to the Constitution of India making free and compulsory Education to the Children of 6-14 years age group, a Fundamental Right. SSA is being implemented in partnership with State Governments to cover the entire country and address the needs of 192 million children in 1.1 million habitations. The programme seeks to open new schools in those habitations which do not have schooling facilities and strengthen existing school infrastructure through provision of additional class rooms, toilets, drinking water, maintenance grant and school improvement grants.

District Primary Education Programme (DPEP) DPEP is based on the principle of 'additionality' and is structured to fill in the existing gaps by providing inputs over and above the provisions made under Central and State sector schemes for primary education. The Centrally-Sponsored Scheme of District Primary Education Programme (DPEP) was launched in 1994 as a major initiative to revitalize the primary education system and to achieve the objective of universalisation of primary education.

Lok Jumbish Project (LJP – lit. people's movement project)The project, supported by Lok Jumbish Parishad, aims at: facilitating access to primary education by all children of 5 to 14 years age; retention of all the children enrolled in schools; improvement in quality of education; improving gender equity through education; making special efforts to link children belonging to disadvantaged communities with elementary education; and soliciting people's participation for universalisation of primary education

A Non-formal Education Programme has also been in existence since 1975 but has largely been unsuccessful. The State has also constituted the Rajiv Gandhi Elementary Education and Literacy Mission to undertake progress in education in a focused and time-bound manner.

The *Shiksha Karmi* Project had significant overlaps with the *Lok Jumbish* and DPEP and now forms part of the overall State strategy for universalisation of elementary education in India.

Right to Education Act (RTE) was implemented in Rajasthan in 2011, this act talks about free and compulsory education to all children in the age group 6-14 years. Other areas covered under the RTE act in Rajasthan are SMCs (School Management Committees) and SC/ST inclusion in the same, School development plan which covers the estimates on class wise enrolment in schools and a 25% reservation for children from lower income backgrounds into the private schools

Sources: SSA information available at *http://ssa.nic.in/;* Information on DPEP at *http://www.archive.india.gov.in/sectors/education/index.php?id=14;* Lok Jumbish information available at *http://www.cuts-international.org/CHD/Lok-Jumbish-Project.htm;* RTE Act information pertaining to Rajasthan available at *http://righttoeducation.in/resources/states/rajasthan*. All websites retrieved Jan 5, 2005.

This case study is an attempt at describing the project from the strategic management viewpoint as an organisation for implementing the scheme of para-teachers that work in remote areas of Rajasthan.

RAJASTHAN SHIKSHA KARMI PROJECT

The Shiksha Karmi Project (SKP) was started in 1987-88 after a realisation that upper primary education would not be possible in 10-15 per cent of the villages in Rajasthan due to teacher absenteeism alone. The solution was to recruit a teacher locally, known as *shiksha karmi* in consultation with the local community. The accent was on inaccessibility due to remoteness and the terrain. This programme has its roots in SWRC, Tilonia night schools. The concept of the Shiksha Karmi (SK) is based on a supposition that a change agent, especially in the field of education, can work effectively if he/she belongs to the same locality.

The Concept of '*shiksha karmi*'

The system of appointment of teachers prevalent in Rajasthan is akin to the national system and has the following grades of teachers: (Ramachandran *et al.* 2005)

- Secondary Schools where Grade I (Graduate or postgraduate with teacher training degree) teachers areappointed
- Upper Primary School where Grade II teachers (Graduate with teacher training degree) are appointed
- Primary School where Grade III teachers (12 years of general education and diploma in teacher education)
- *Shiksha Karmi* School – where parateachers known as *Shiksha Karmi* are appointed.
- Rajiv Gandhi *Pathashala* (primary) – where contact teachers are appointed with a minimum of 12 years of general education.
- Alternative School (primary) where instructors are appointed for a specified duration: 6-hour school; 4-hour school; and bridge courses
- *Madarsas* (Muslim community schools, primary level)
- Residential camps for out-of-school children to get back to the formal stream (government and NGO)

The concept of *'Shiksha Karmi'* was sought to be achieved by actively involving the community through village education committees and employing local people, with motivation and commitment, as para teachers also known as *Shiksha Karmis*. In order to facilitate women's participation, fourteen *Mahila Prashikshan Kendras*, which were residential centres for training women, were provided. Two parateachers (one male and one female), identified by the community, were made in-charge of the primary school of the village after having received training at the initial stage (for 41-50 days) as well as, training on regular basis. The training provided by NGOs and District Institutes of Educational Training (DIET) was to ensure that people with limited educational backgrounds, having minimum qualification for men as 8th grade and for women as 5th grade could teach up to the 5th class. In addition, a *Sahayogi* (assistant) was made responsible for attendance and on-going training at the block level. Every *Shiksha Karmi* was required to run *Prehar pathshalas* (evening schools) in addition to the day schools to cater to children who were unable to attend schools during normal hours.

Strategic Intent of SKP

The vision and mission of the SKP were not formally mentioned. The vision of the SKP could be deduced as universalisation and qualitative improvement of primary education in remote, inaccessible, arid, and socio-economically backward villages of Rajasthan thereby contributing to the national objectives of universalisation of elementary education and bringing education within the reach of all.

The mission of SKP gives the impression that it is to extend universal primary education to remote villages and hamlets in Rajasthan.

Goals/Objectives of SKP

The aim of the programme was to provide primary education to children living in remote, hilly and inaccessible areas. In these areas, the project aimed to revitalise and expand primary education through resolving the problems of: (a) Teacher absenteeism (which was as high as 50-60%) and (b) Poor enrolment (25%) and high dropout rates, particularly of girls.

This basic objective was sought to be achieved by tertiary objectives such as:

- Tackling the problem of teacher absenteeism
- Addressing the issues contributing to poor enrolment
- Concentrating on the high drop-out rates

- Doing away with inadequate access to education
- Developing and training a cadre of local *shiksha karmis* acceptable to the village community
- Putting in place an extensive system at the village, block, regional, and State levels to provide training, support, guidance and accountability for the *shiksha karmis*

The SKP was functioning in all the then 32 districts of Rajasthan, 150 blocks and 3,650 villages in Rajasthan There were 3,646 day schools, 71 upper primary schools and 54 *Shivamba Shivirs* (Girls' education camp) with an enrolment of 2.76 lakh children as on December 31, 2004.

Business Definition

The business definition includes the three elements of customer groups, customer needs, and the technologies used. The SKP appears to be aimed at the customer groups that constitute children in the age group of 6 through 14 years in remote, arid, and socio-economically backward villages of Rajasthan where primary schools are either non-existent or are dysfunctional. The customer needs at an obvious level seem to be learning and education at the primary level. The delivery technology rests on instruction provided by *shiksha karmi* teachers based on a curriculum derived out of local needs.

Business Model

The prevalent business model used in elementary education consists of a configuration of resources including the teaching staff, classrooms, books and other teaching material, and an administrative system to fund and manage these resources. The effectiveness is often assessed in terms of the pass percentage of students in end-of-term examinations. The delivery of education takes place in a face-to-face situation where students and teacher come together in a situation that is mostly one-way communication from the teacher to the taught. The children are usually put off by the uninspiring atmosphere within the classroom and the teachers too are not motivated to engage classes regularly.

The SKP business model aimed at dealing with two challenges: reducing the cost of providing additional teachers in an expanding education system thereby reducing recurring financial liability and ensuring availability of teachers in hitherto dysfunctional schools. The average expenditure per student on primary education was Rs.1480 per year.

The core effort of the SKP by different accounts appears to be using a radically different approach in delivery of elementary education by sidestepping the challenge of having school teachers who have to be appointed through a centralised, directive, bureaucratic process often ridden with delays, nepotism and corruption. The SKP business model circumvented this by appointing less-qualified, locally available teachers aware of and part of the local conditions where they live and work. Their appointment was with the concurrence of the village education committees making them acceptable to the village community. The problem of absenteeism was tackled as the teacher did not live in the neighbouring town but at the place where she was teaching. The willing participation of the para-teacher hopefully would lead to a more joyful and inspiring classroom atmosphere where the children were instructed in a curriculum that is more relevant to their day-to-day needs.

In SKP, community participation started by official acceptance of the problem of dysfunctional schools and the need for an alternative means of creating and running a functional school. The community was involved in selection of *Shiksha Karmi*; provided support in enrolling children with a marked focus on girls, backed by day-to-day support and monitoring.

Stakeholders

The SKP had many stakeholders each of whom provided support and in return had expectations and claims. The most significant stakeholder was the child who was the focus of all efforts of SKP. The SKP had a specific focus on the children in the age group 6 through 14 years residing in remote areas of Rajasthan. These children entrusted their future to the SKP in order to benefit from what it had to provide. The para-teacher, *Shiksha karmi* was the stakeholder who made it possible for the project to attain its objectives. The village community including the village education committee and the *gram panchayat* were the stakeholders who invested time and effort in making the local projects run smoothly. Their interest was in making it possible for their children to have access to reasonably good quality education at hand. At the grassroots level, *panchayat samities, shiksha karmi sahyogis*, subject specialists of NGOs, *shiksha karmis* and the village community constantly interacted with each other to achieve the aims of the project.

The Rajasthan *Shiksha Karmi* Board was the agency responsible for administering theSKP. The national and state governments and their functionaries and agencies such as ministries and departments of education, state-run educational research institutions, were the one of the major external stakeholders who invested funds as well as administrative guidance. The donors had an interest as they made substantial investments over a period of time into the project. In the case of the SKP, the donors included the foreign donor agencies SIDA and DFID apart from the governments of Rajasthan and India. Exhibit 5 presents basic information about the foreign donor agencies.

Exhibit 5 Foreign Donor Agencies for the Shiksha Karmi Project

The Swedish Agency for International Development Cooperation (SIDA) is a global organisation with its main office is at Stockholm in Sweden. It is a government agency under the Swedish Ministry for Foreign Affairs. Its stated goal is to contribute to making it possible for poor people to improve their living conditions. Like other Swedish government agencies, SIDA works independently within the framework laid down by the Swedish parliament and government. The SIDA's annual report 2006 mentions that its total staff numbers approximately 900, of whom 190 work in the field at missions and offices. The Swedish government provides the funding to the agency and the parliament oversees its activities. To start with, during the first phase (1987-94) the expenditure was to 90% paid by SIDA and 10% by the Rajasthan Govt. However during the second phase (1994-98) the expenditure was shared equally between SIDA and the government of Rajasthan. As the negotiations for the next phase of the project were on, SIDA withdrew support for the project following the explosion of the nuclear tests by the Government of India in May 1998. Later DFID agreed to support the third phase of the project.

The Department for International Development (DFID) is a part of the Government of the United Kingdom that manages UK's aid to poor countries and works to get rid of extreme poverty. It has its headquarters at London and East Kilbride and 64 offices worldwide. It is headed by a cabinet minister. DFID has its India office at Delhi. DFID has provided about £1045 million to India in bilateral aid over 2002-2007 and plans to provide £825 million in between 2008 and 2011. DFID supported the SKP in the third phase (1999-2003) on 50:50 bases with the Government of Rajasthan.

Source: A look at the SKP and the donor agencies part of it (The *Shiksha Karmi* Project is covered in pages 75-76) available at *http://www.sida.se/contentassets/20962396887d4256b4856065c7480d67/rajasthan-shiksha-karmi-project.-an-overall-appraisal—desk-study-commissioned-by-sida-emassy-of-sweden-new-dehli_623.pdf*. Retrieved Jan 5, 2015

The SKP had about 28 NGO partners such as *Sandhan* Research Centre and *Sankalp* that played different roles including assisting in monitoring the effectiveness of the projects. There were also other monitoring agencies such as the Institute for Development Studies at Jaipur. The DPEP and *Lok Jumbish* projects were the other concurrent projects being run in Rajasthan that had similar objectives to attain as had the SKP. While there might be overlapping objectives and mechanisms, these projects do serve similar purposes. The larger canvas of stakeholders would have the media, general public, and local and state politicians.

EXTERNAL AND INTERNAL ENVIRONMENT OF SHIKSHA KARMI PROJECT

Distinctive Features of the External Environment

The external environment in which the primary education system in Rajasthan exists is an interesting amalgam of a wide range of factors. In many ways, Rajasthan is a region of sharp contrasts. For instance, the state is the original home of entrepreneurs that constitute some of the largest business houses such as the Birlas and Mittals in the country and the world as well as poorest hamlets in arid regions of the Thar Desert. On the one hand, there are the prosperous farmers of Sriganganagar while there are subsistence farmers in Dholpur.

The economic environment is characterised by heavy dependence on agriculture and animal husbandry that are still the main sources of livelihood, though there is a significant shift to sectors such as mining and quarrying, construction and manufacturing. Tourism is a significant industry. There are a number of industries and industrial areas. The infrastructure sector is weak. Unemployment, underemployment, and poverty are higher than the national averages though recent years have seen some improvements. The unsatisfactory economic environment has a negative impact on children as many of them have to devote time to working rather than studying in school. Girls, especially, are expected to devote considerable time to household work affecting their ability to apply themselves to meaningful education.

The political environment has a significant feature of a near two-party system with the Indian National Congress and the Bharatiya Janata Party alternating as the governing parties. The economic policies of the two parties do not differ significantly as is the case at the national level. Policies regarding education are forward-looking and progressive and Rajasthan remains a State where many of the innovative experiments in primary education have been tried out.

In terms of regulatory environment, the State has been known in the past as one of the best governed States in the country with able administrators. Recent years have however witnessed deterioration in administrative capability. Bureaucratic control over the education system remains strong and stifling. Many of the educational programmes are consciously designed to do away with unnecessary bureaucratic interference.

The socio-cultural environment in the State is characterised generally by harmonious social relationship between people from different religions and castes. Caste consciousness among Hindus however remains strong. A substantial proportion of the population is formed of underprivileged castes that are part of the scheduled castes and scheduled tribes. Population growth rates are high; growth in labour force outpaces employment generation. This has implications for youth as many of them pursue career in school teaching in the hope of landing a government job.

Education is a top priority for parents and children but such awareness is more visible in the middle-income and higher income groups as is the case in most parts of the country. For instance, candidates from Rajasthan appearing in competitive examination for higher education have been scoring well but such positive developments are only peripheral. The major chunk of *Rajasthani* society remains immune to developments in the field of education.

Overall, the external environment in Rajasthan for institutions engaged in primary education is characterised by the dominance of the government sector, booming private sector, growing public-private partnership, commendable role played by the third sector—the NGOs, generally well-meaning and enthusiastic bureaucrats, solid achievements in raising literacy, enrolment and reducing gender disparities and drop-out ratio, plus a lot of political rhetoric, grandiose schemes, and unfulfilled dreams.

Distinctive Features of the Internal Environment

All the political and administrative levels in India own and manage schools. There are central government schools, state government schools, and *panchayat* / municipal schools. There are special schools like military schools, school for physically challenged, schools for special subject like an art school or dance school. Then there are residential and non-residential schools. And of course, there are the government schools and private schools. Among the private schools there are aided, partly aided, and non-aided schools. Private schools are run by academic trusts, corporate bodies and now increasingly by academic and social entrepreneurs. There are gender-specific schools like boys' schools and girls' schools and also co-educational schools. There are transitional schools that prepare children to bridge from the lower to a higher level of education. There are also part-time schools and mobile schools. Innovations abound. The demand for school education keeps rising as aspiration levels in the Indian society soar. Parents have started to realise that the future of their children is critically dependent on their acquiring education that will enable them to seek employment. Irrespective of the type or level or quality of school, the value chain system in a school is quite similar yet distinctive as compared to the value chain systems in other types of organisations.

Exhibit 6 Value Chain Framework in the Context of Institutions such as Shiksha Karmi Project

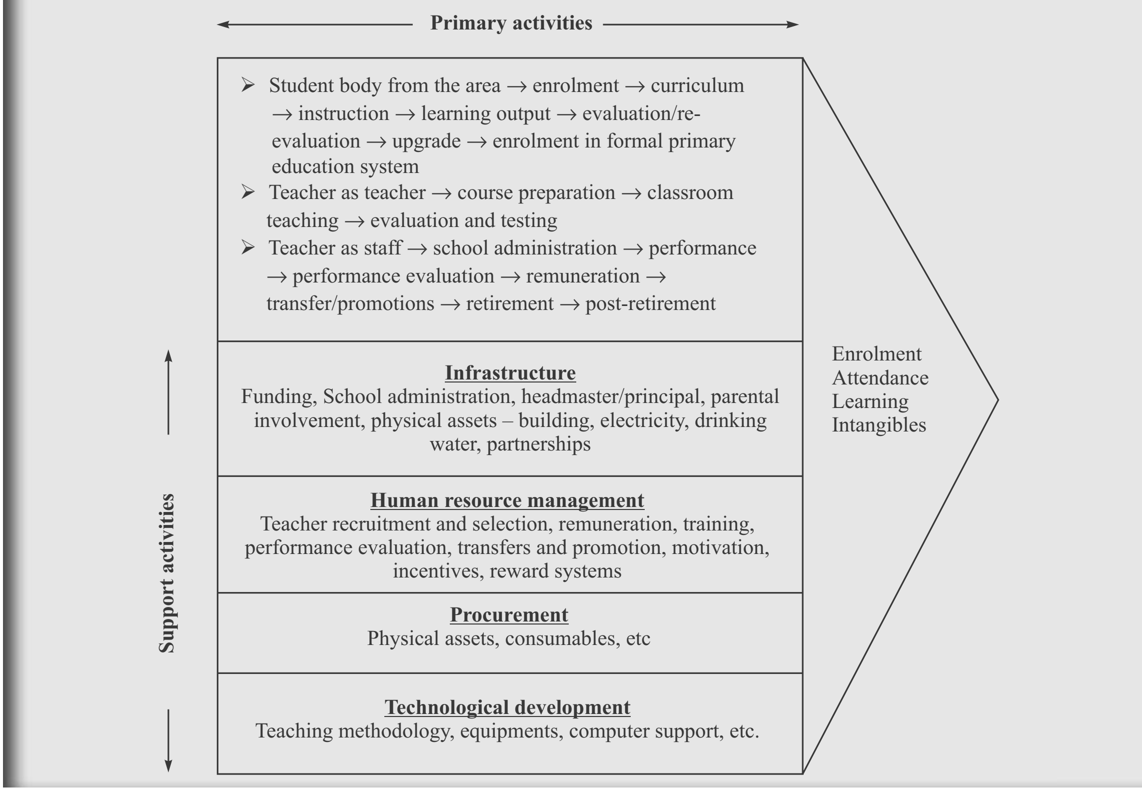


Exhibit 6 presents a visual presentation of how the value chain framework can be viewed in the case of institutions such as the SKP. The value chain depicts the primary activities related to students, teacher as teacher, and teacher as staff. The support activities are infrastructure, human resource management, technological development, and procurement. The result is seen in terms of indices related to enrolment, attendance, and learning and intangibles such as better social and community relationships, raising the self esteem of rural youth, and enhancing the joy of learning.

The value chain in a school system starts with enrolment which is a basic issue in schooling. Enrolment campaigns, governmental and non-governmental efforts and increasing awareness among parents and children have enhanced the enrolment rates.

Curriculum is often standardised across state-level institutions. In the SKP the effort was on the development of locally relevant curriculum related to the environment of the child and its effective transaction in the classrooms for increased enrolment, selection and participation, especially of girls.

The output in the case of SKP can be assessed in terms of enrolment and attendance rather than learning output as measured through school or board examinations as in the case of formal primary education. The learning output is primarily in terms of literacy. Literacy is defined in various ways. According to UNESCO "a literate person is one who can, with understanding, read and write a short statement on his everyday life". The National Literacy Mission defines literacy as acquiring the skills of reading, writing and arithmetic and the ability to apply them to one's day-to-day life.

The means used for delivery learning is through the teacher—*shiksha karmi* in this case. We can view the teacher in two ways: 'teacher as teacher; and 'teacher as staff'. The value chain system for 'teacher as teacher' would look at course preparation, classroom teaching, evaluating and testing. 'Teacher as staff' would look at school administration, performance, performance evaluation, remuneration, transfer/promotion, retirement, and post-retirement.

The value chain system is supported by infrastructure, human resource management, technological development, and procurement.

The internal environment in the primary education system such as the SKP is characterised by a plethora of interrelated and interacting features such as below:

- Children, teachers, curriculum, subjects and syllabus, books and teaching material, evaluation of students, evaluation of teachers' performance, skill development of students, etc.
- Head master, school administration, record keeping, accounting, sundry item purchase, security of assets, maintenance of assets, control mechanisms, teacher training, non-teaching duties, etc.
- Behaviour of students to learning, attitude of teachers to instruction and teaching, and other behavioural parameters
- Administrative procedures, accounting and auditing, financial controls, use of information technology and computers, etc.
- Mid-day meals, free books for girls, hostel facilities, special residential bridge course for drop-out girl students, bicycles and free bus passes to girl students, etc.

STRATEGIC MANAGEMENT OF SHIKSHA KARMI PROJECT

Strategy Formulation

The strategy evident in the formulation of the SKP appears to rest on the effort to create a non-formal system of delivery of education through collaborative partnership through the means of the change agent—the *shiksha karmi*—identified on the basis of acceptance of the local community in which she was required to work. The strategy involved concentration in terms of geography and social groups. In terms of geography the region was required to be remote, away from the urban centres that in the case of Rajasthan means away from the state capital and district headquarters. The social groups are the disadvantaged sections of society that are most often members of the scheduled castes, scheduled tribes, and other minority groups.

The SKP deployed a focused low-cost approach to delivery of education. The major cost advantage was in terms of the low remuneration paid to *shiksha karmi* and modest investments in building the infrastructure. As compared to the teacher in the formal primary education system who is paid reasonable remuneration and receives other monetary benefits such as medical and living allowances, the *shiksha karmi* did not receive any other monetary benefit beyond the fixed allowance.

A significant feature of the SKP's strategy was reliance on a collaborative network of participants that included several internal and external stakeholders as described in the previous section.

Overall the strategy of SKP was the delivery of low-cost education by the *shiksha karmi* through concentration in terms of geography and social groups through cooperative effort by strategic alliance with multiple participants.

Strategy Implementation

The carrying out of the SKP had all the elements of a typical strategy implementation exercise ranging from activating the strategies through managing change and achieving effectiveness to structure, systems, and governance and behavioural aspects.

Activating strategies in the SKP involved laying down the project, programmes, plans and schemes and creating the procedures necessary to make the project work. Resource allocation was an important function in the implementation of SKP in terms of distribution of funds and devolution of authority to spend from the donors and central and state governments down to the grassroots level.

Managing change was a significant feature of the implementation exercise as SKP was an enabling element in the larger exercise of raising consciousness in society about the value of education in human development. At the specific level of the community, it involved a change in attitude of villagers especially among the social, political and religious leaders and village elders towards education of children particularly girls. On the delivery side, the change was sought in terms of the attitude of the bureaucracy that is not quite used to decentralisation of authority in administrative matters. Participation by the partners in the cooperative venture of SKP was non-hierarchical necessitating a big change in the attitude of bureaucracy as well as local functionaries. The SKP involved identification, recruitment, selection, evaluation of the *shiksha karmi* by the village community.

Effectiveness of the SKP was seen in terms of several parameters. The major ones that seemed to have been focused upon are the identification, recruitment, selection, and training of *shiksha karmis*, enrolment figures for the SKP schools, monitoring the drop-out rate, enhancement of joyful learning, and relevance of curriculum to local needs.

The administrative structure and the information, control and reward systems for SKP were amalgam of the legitimacy of government and the vibrancy of voluntary organisations. The project was implemented by the Government of Rajasthan through the Rajasthan *Shiksha Karmi* Board (RSKB) with community participation and assistance from voluntary agencies. The RSKB had a Governing Council and an Executive Council. For every 15 to 17 schools there was a *Shiksha Karmi Sahayogi* who provided on the spot support to the *Shiksha Karmis* in resolving problems of academic and non-academic nature. Review and planning meetings were held as support interventions to the *Shiksha Karmis* at the block level, while at the village level support was provided by the Village Education Committee with respect to enrolment, attendance, school mapping, micro planning, etc.

The grassroots implementation of SKP took place through *Prehar Pathshala* (schools of convenient timings, generally evening schools), *Angan Pathshala* (courtyard schools), and the *Mahila Prashikshan Kendra* (training centres for women *shiksha karmi*). *Prehar Pathshalas* provided educational programmes for out-of-school children who could not attend regular dayschools due to their pre-occupation at home or in the fields.They were taught a condensed formal school curriculum and learning. *Angan Pathshalas* proved effective in attracting girls to primary schools while *Mahila Sahyogi* (women helpers) were instrumental in motivating girlsto attend schools or *Prehar Pathshalas*in remote areas.

Functional and operational implementation of the SKP rested on the focal point of the *Shiksha Karmi*. The *Shiksha Karmis* came from the local community. A *Shiksha Karmi* was a local person with a minimum educational qualification of class eight for men, and class five for women, since educated females who are old enough to teach are still rare in rural Rajasthan. These teachers were given a 6-week residential, induction training, using discussions, exercises, songs, role-play and a range of unconventional techniques. This was followed by two 30-day training programmes in the first two years, one 20-day training programme after two years and a 10-day training programme every year subsequently. The motivation of *shiksha karmi* was based on the assumption that a local person from the community would better relate to local conditions, would be better accepted by the parents, children, and local community, and would perceive the opportunity as gainful employment with prospects of being able to secure a full-time job later. The low remuneration to the *shiksha karmi* was certainly not a monetary incentive unless it is considered as getting something rather than nothing at all. This is understandable in view of the fact that unemployment is rampant in the rural areas.

Strategy Evaluation and Control

The evaluation and control of the SKP was based on an elaborate monitoring structure built into the programme. The monitoring process operated at the village, block,headquarters and state levels. There were joint biannual reviews by the international donor agency, the Government of India and the Government of Rajasthan besides independent evaluationby teams consisting of national and international experts. There had been the practice to conduct mid-term review and evaluation through interactions with all functionaries and beneficiaries.

Grassroots monitoring was done on a monthly basis by *Shiksha Karmis* and on quarterly basis by the village education committees. In addition, monitoring activities were carried out at the regional level by the resource unit and the members of the *Shiksha Karmi* Board (SKB), and at the state level by the executive committee of the SKB. However, the structure of SKP was relatively informal as *Shiksha Karmis* were not permanent government employees, and participation of community and people working in education outside the government system we reencouraged. A redeeming feature of the evaluation and control at SKP was that it tried to avoid setting performance targets in numerical terms and keep them indicative rather than decisive. This was done deliberately to adopt a pace of expansion and innovation suitable to the prevailing environment.

THE ROAD AHEAD

As part of the support mechanism, the project operated through 13 *Mahila Prashikshan Kendras* (Residential training schools for women) that have trained 349 *Mahila Shiksha Karmis*. The project activated 2137 Village Education Committees and has involved 188 *Shiksha Karmis* and 331 *Mahila Sahyogis*. In addition, over 45 Subject Specialists and 798 Master trainers were involved in helping with training of *Shiksha Karmis*. In the project villages, 87 per cent of the boys and 78 per cent of the girls were enrolled in day schools and *Prehar Pathshalas*. The average attendance rate had increased to 85 per cent with as many as 576 villages reporting 100% attendance. The retention rate too had gone up to 65 per cent. The success story of *Shiksha Karmi* project has played out.

These models including the *Lok Jumbish* were scaled up by District Primary Education Programme and *Sarva Shiksha Abhiyan* for universalising elementary education. The SSA too had its terminal year in 2010. Integration of the results achieved remains a priority to be fulfilled. Many of the children who benefited from primary education would need more facilities for pursuing secondary education. There is a dearth of institutions and infrastructure there too. SKP and similar schemes have also been adversely affected by certain developments such as the reduction in the per capita investment on education in remote rural and tribal areas and new slum settlements in urban areas. There is the omnipresent challenge of surviving, growing and thriving beyond funding. The learning gained by the children in the process need not be temporary; institutions need to think of sustainable learning that could help the children grow up into responsible adults and productive members of society.

There is some criticism of the phenomenal growth of the practice of appointing para-teachers despite the evidence that low salary, contractual nature of the job leading to discontent and low motivation and doubtful quality of para-teacher training and low-quality classroom instruction do not really contribute to the objectives of making education enjoyable for children.

A stark feature of the models such as the SKP is the near-total absence of the corporate sector as participants and having community as the driving force behind it. This is surprising as the corporate sector is alive to its social responsibility and there is prevalence of government-corporate-voluntary sector collaborative arrangements. Why should there be such abject reliance on the government that itself looks to foreign donors for funding projects of national concern is a perplexing issue. Another development relates to the strategy for the bottom-of-the-pyramid. The corporate sector around the world is opening up to the immense possibilities of providing products and services to very low income groups. However, there does not as yet seem to be a strategy for the bottom-of-the-pyramid in primary education. Most corporate efforts in education are in the more lucrative sectors of urban-based high-quality well-endowed schools, higher education, and technical education benefiting mostly the upper and middle classes. With recent changes in the Companies Act, however, the situation might change for the better when corporate sector could be interested in investing resources into education.

A facet that deserves mention here is the other extreme of the situation. It is not as if all the problems in the field of education lie in issues such as poverty, rural areas, enrolment, and lack of infrastructure. There are innumerable problems on the other side where frequently we read about the decline in the academic performance of students in the Western countries and also in the urban areas of India at large who fare poorly on standardized tests, read less, have weaker analytical skills, a declining command of languages, and, in general, are less well rounded, while they tend to watch more television and videos, and spend more time playing computer games. Dealing with these challenges could be as daunting as those that SKP dealt with.

With interventions including SKP and SSA reaching termination, 98 per cent of our children are claimed to have access to a primary school within one kilometre, and almost 92 per cent to an upper primary school within three kilometres of their habitation. However, this has still not been able to provide children with the quality of education that can be considered even satisfactory. In August 2009, the Parliament passed the historic Right of Children to Free and Compulsory Education (RTE) Act, 2009. The new law must be seen from the perspective of children. It provides the legal framework that entitles all children between the ages of 6 and 14 years to a free and compulsory education of reasonable quality, admission, attendance and completion of education based on principles of equity and non-discrimination. More importantly, it provides for the child's right to education that is free from fear, stress and anxiety.

The United Nation's Millennium Development Goals related to education envisage that all children will have the opportunity to complete primary schooling by 2015. Rajasthan is fast on the way to achieve these goals. Yet, challenges remain. Quality of education remains abysmal, retention of students is a serious problem; gender disparities though reducing considerably do not have an end in sight, and the quality of primary school teachers need continual upgradation. The tasks of universalisation of elementary education and providing equal opportunities to disadvantaged groups remain unfinished. The struggle against ignorance and poverty goes on.

Notes and References

1. B. Kothari, P.G. Vijaya, S. Chand, R. Sharma, A.H. Kalro & P. Gupta,"Savouring Rajasthan's Shiksha Karmi in a remote village: the prospect of dismantling the student-teacher divide,"*International Journal of Lifelong Education* 19, no. 5 (September 2000): 407-417.
2. Department of School Education and Literacy, Government of India, *Annual Report 2004-5*at *http://education.nic.in/Annualreport2004-05/EEduLit.pdf*. Retrieved Feb 24, 2008. The *Shiksha Karmi*. Project is covered in pages 75-76.

3. Government of Rajasthan (1999) *Pragati Prativedan (Progress Report) 1998-99* Department of Elementary and Secondary Education, Jaipur.
4. K. Kumar, M. Priyam and S. Saxena, "The trouble with 'para-teachers,'" *Frontline*, 18, no. 22, Oct 27 – Nov 9, 2001. The article is available at *http://www.frontline.in/navigation/?type=static&page=flonnet&rdurl=fl1822/18220930.htm*. last retrieved Jan 15, 2015.
5. P. Thakur and S.N. Methi, *Shiksha Karmi Project – Rajasthan (India)* (Washington, DC: The World Bank, 1999)
6. "Rajasthan's Shiksha Karmi schools" *Education Today* UNESCO Jan-Mar 2005
7. *Raj Darpan*, the official website of the Government of Rajasthan at *http://www.rajasthan.gov.in/*
8. SIDA: *Rajasthan Shiksha Karmi Project. An overall appraisal* New Education Division Document, Article No. SIDA2379en, Swedish International Development Cooperation Agency, 2001. Available at *http://www.sida.se/sida/jsp/sida.jsp?d=118&a=2683&language=en_US&searchWords=Shiksha%20Karmi* last retrieved Feb 24, 2008
9. *The Rajasthan Human Development Report 2002* Government of Rajasthan available at *http://planningcommission.nic.in/plans/stateplan/sdr_pdf/shdr_raj02.pdf*. Retrieved Jan 15, 2015.
10. V. Ramachandran, M. Pal, S. Jain, S. Shekar and J. Sharma: *Teacher Motivation in India* DFID research project report April 2005 available at *http://www.azimpremjifoundation.org/downloads/tech_motiva.pdf;* last retrieved Feb 24, 2008.
11. V. Ramachandran and H. Sethi, Rajasthan Shiksha Karmi Project: An Overall Appraisal at *http://www.researchgate.net/publication/44827723_Rajasthan_Shiksha_Karmi_Project_an_overall_appraisal*. Also available at *http://www.eruindia.org/files/Shiksha%20Karmi%202000.pdf*. Retrieved January 15, 2015.
12. Website of the Education Department of the Government of Rajasthan at *http://www.rajshiksha.gov.in/* Retrieved Jan 5, 2015

Case 6

Shija Hospitals and Research Institute: An Untiring Journey*

With India's 'Look-East'policy, Manipur's favourable location bordering with Myanmar, meeting point of two superpower nations of China and India, huge tourism potential of the state, the enormous potential of ecology, sports and culture and its strategic significance, especially in war, Manipur, one day, is likely to become one of the major healthcare destinations of Southeast Asia.

Shija Hospitals and Research Institute (SHRI) could play a significant role in making Manipur the favoured healthcare destination within and outside India. Being located in the eco-friendly place and having a vast area and far from the vicinity of the noisy commercial place, expansion of the premises could be possible. Moreover, it could be an ideal place for the sick to have a fast convalescence.

SHRI takes special pride in setting the Guinness World Records for removing successfully the world largest neck tumour weighing 1.2 kg which was 40 per cent of the total weight from a 12-day old baby boy. SHRI performed re-implantation of amputated thumb successfully for the first time in North-eastern India in March 2000 and re-implantation of arm in 2005. SHRI performed cosmetic surgery for breast augmentation using silicone implants for the first time in Manipur on 30th Aug. 2003. SHRI was empanelled by Government of Manipur and various public sector organizations under Govt. of India including Central Universities in the state. It is remarkable that such an institution is a small state of India.

THE STATE OF MANIPUR

Manipur is an erstwhile princely state under British rule that merged into India in 1949 and came into existence as a state in 1972. Manipur literally means 'the jewelled place' is a small state in North-eastern India. It is one among the seven sister states of Arunachal Pradesh, Assam, Meghalaya, Mizoram, Nagaland and Tripura that are contiguous. It has an area of 22,327 square kilometres, population of above 27 lakh with its capital at Imphal. Most of the terrain of the state is hilly with a central valley over which its nine districts—five in the hills and four in the valley—are spread out. It is a naturally endowed state known for its classical dance and arts. It is also a landlocked state, economically and industrially backward, it has poor infrastructure and is dependent mostly on central government grants for its development.

* This case has been written by Dr. Ch. Ibohal Meitei, Professor, Manipur Institute of Management Studies, Manipur University, Imphal, Manipur. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation. Reprinted by permission of the author.

Exhibit 1 Basic Health Indicators for Manipur State

Indicator	Manipur	India
Population (in crore), 2011	0.27	121.01
Decadal growth (%), 2011	18.65	17.64
Crude birth rate, 2011	14.4	21.8
Crude death rate, 2011	4.1	7.1
Infant mortality rate, 2011	11	44
Sex ratio, 2011	987	940
Child sex ratio, 2011	934	914

Source: Adapted from data available from Directorate of Health Services, and Health and Family Welfare Department, Government of Manipur

The health indicators for Manipur when seen in comparison with all-India indicators are better as can be observed in Exhibit XX. For instance, crude birth rate and crude death rate are lower and the infant mortality rate is substantially lower than the all-India figure. Manipur also scores better in terms of child sex ration and overall sex ratio.

Health Sector in Manipur

Manipur is primarily dependent on government for medical, health and family welfare services. There are a small, emerging private sector in health sector having hospitals and nursing homes. The government health infrastructure is organised into three levels of primary, secondary and tertiary care. Exhibit 2 shows the services delivery coverage in Manipur health sector. The health budget financing has been improving over the years with it rising from Rs. 155 crore in 2007-2008 to Rs. 478 crore in 2013-2014.

Exhibit 2 Health Sector at a Glance: Services Delivery Coverage

Nature of health institution	Number / Ratio
Medical Colleges	2
District Hospitals	7
District Hospitals (FRU)	5
Sub-district hospitals	2
Community Health Centres	16
Primary Health Centres	85
Primary Health Centres 24 × 7	38
Primary Health Sub-centres	421

Contd.

Other public hospitals (State TB, Leprosy hospitals)	2
Private hospitals	30
Bed-population ratio (All India ratio – 1: 791)	1 : 789

Source: Adapted from data available from Directorate of Health Services, and Health and Family Welfare Department, Government of Manipur

As per the figures available with the Directorate of Health Services (*http://www.manipurhealthdirectorate.in/?page_id=186*) the sanctioned strength of beds in hospitals is 2042 against which the actual availability is 1541 indicating a shortfall that needs to be filled up by private sector or public-private partnership ventures.

BACKGROUND OF SHIJA HOSPITALS

Shija Hospitals and Research Institute Private Limited (SHRI) is an ISO 9001–2008 certified, 200-bedded multispecialty hospital with 21 specialties including super-specialty departments located at eco-friendly Langol on the outskirts of Imphal in the north-eastern of Manipur in India. It is providing secondary and tertiary healthcare in the region with more than 650 dedicated and trained staff.

Vision and Mission

Vision: SHRI aims to be a premium and leading brand in healthcare services in the South East Asia, recognized for its holistic approach, personal touch and technological advancement.
Mission: SHRI is dedicated in providing high quality and customer focused healthcare services. It has been focusing on the customer needs, research and development on quality services, quality system management, networking world-wide, andmanpower development. SHRI has a conviction in integrity, agility and passion for excellence.

Medical Specialities at Shija Hospitals

Since its inception in 1985 as a mono-practice clinic to the first ever ISO certified hospital, SHRI has had a meaningful journey and looks forward to a remarkable future ahead by adding cardiac science, kidney and cornea transplantation, infertility treatment, joint replacement surgery, and wellness park.

The various medical specialities available at SHRI are shown in Exhibit 3. The Emergency and Trauma Care supported by 21 clinical departments and diagnostics services ensures that all critical cases are given immediate and adequate care. There are 32 critical-care beds with staff trained specifically for intensive care and round-the-clock anaesthetists. SHRI strictly follows the system of segregation of bio-medical waste at source and ultimately appropriate treatment and disposal of waste through incinerator, shredder, sharps pit, and deep burial for the safety of environment. Shija Bio-Medical Waste Management is now recognised by the Manipur Pollution Control Board as the common facility for the entire state.

State of the art Shija Blood Bank & Transfusion Services is a Public Private Partnership initiative, funded by North East Council, Shillong and Planning Department of the Government of Manipur. This is the only licensed blood bank accredited by the National Accreditation Board for Hospitals &Healthcare Providers (NABH) in north-eastern states. It is equipped with Nucleic Acid Test (NAT) facility to screen HIV, Hepatitis B & C Virus which is the first installation in the entire Eastern India.

The Shija Academy of Nursing is one of the leading nursing institutes in the state. SHRI also trains paramedics and is recognised for post-graduate DNB courses in General Surgery, Anaesthesia, Medicine and Plastic Surgery. Under Shija Overseas Training Program, SHRI in collaboration with AMASI (Association of Minimal Access Surgeons of India) took up the initiative of providing free training to two surgeons and six nurses from Monywa General Hospital, Myanmar for three months in the areas of laparoscopic surgery, operation theatre technology and critical care.

Exhibit 3 Medical Specialities Available at Shija Hospitals

• Anaesthesiology & Critical Care	• Trauma & Burn Unit
• Neurosurgery	• Urology
• Audiology & Speech Pathology	• Obstetrics & Gynaecology
• Nephrology	• ENT
• Plastic & Reconstructive Surgery	• LASER & Cosmetic Clinic
• Biochemistry	• Ophthalmology
• Radiology & Imaging Science	• Dietetics & Nutrition
• Pathology	• Cardiology
• Cosmetic Dentistry & Dental Surgery	• Blood Bank and Transfusion Services
• Microbiology	• Orthopaedics
• Physiotherapy & Rehabilitation	• General & Minimal Access Surgery (MAS)
• Dermatology Emergency	• Medicine and Surgical Gastroenterology.

Over 3500 cleft lip and palate patients have been operated free of cost and given smiles on their faces under ‘Smile Train Shija Cleft Project’ not only in Manipur but also in the neighbouring states of Nagaland, Assam, Mizoram and also the neighbouring country of Myanmar.

In its contribution towards the neighbouring country, SHRI started the venture of Mission Myanmar in May 2013 with a firm belief to bring the two nations together. So far, three successful missions were undertaken in continuation of its service wherein 134 cleft lip and palate, 179 cataract blindness and 32 keyhole surgeries were performed for free.

The Shija Eye Care Foundation conducts various community based peripheral outreach camps in rural and tribal areas. More than 7000 patients with cataract blindness have undergone free surgeries in the last 4 years.

The core competences of the hospital could be the skills of the surgeons. There were 39 dedicated full time doctors who were highly motivated and were available round the clock on call or within the hospital campus. SHRI had in-house services like PCOs, canteen, pharmacy, internal supply system of medicines and micro finance etc. for the convenience of the patients and patients’ party.

The hospital had all the latest state-of-the-art equipment for catering the best of quality treatment services at par with the world standards. Minimally invasive surgeries were the procedures being used by Laparoscopic surgery, PCNL, Functional Endoscopic Sinus Surgery etc. Minimally Invasive surgeries (MIS) had the advantage of less pain, less bleeding, less hospital stay, less medication, less chance of infection, less scar, early recovery to normal life and more economical over conventional procedures. Open surgery throughout the world had been replaced by MIS. SHRI was the premier ‘stone’ treatment and keyhole surgery centre in India. It was also the Premier Plastic Surgery and Neurosurgery centre in North Eastern India. The hospital started cryofreezing, a non-operative treatment of piles in 1986 for the first time in North East India.

Shija Blood Bank and Transfusion Services are equipped with state of the art facilities like Apheresis and Neucleic Acid Test (NAT), apart from the normal component separation and requisite advanced laboratory for blood screening.

The overall management of the company is vested in the Board of Directors. The day-to-day affairs of the hospital are looked after by the Managing Director under the supervision and advice of the Board of Directors. Exhibit 4 shows the background of the members of the Board of Director.

Exhibit 4 Profile of the Directors

Dr. Kh. Palin, CMD: Dr. Kh. Palin, Chairman cum Managing Director, completed his M.B.B.S. from (Regional Institute of Medical Sciences (RIMS), Imphal in 1978 and he worked as a Registrar in casualty and general surgery departments in RIMS. He passed MS (General surgery) from PGI Chandigarh in 1984 after which he joined the Department of Plastic Surgery as a registrar. He completed his MCh. (Plastic Surgery) from PGI Chandigarh again in 1992 after which he was promoted to the post of Assistant professor of plastic surgery in 1993. He resigned from RIMS as Assistant Professor of Plastic Surgery on 16 February 1996. He also underwent training in micro vascular surgery, laparoscopic surgery, and ultrasonography. He brought the art of laparoscopic surgery for the first time in Manipur in April 1996. He was awarded "NETV People's Choice Award 2005" for his contribution in the field of healthcare business in the North East region. He was included in the top 50 Smile Train plastic surgeons of the world in 2007.

Dr. S. Jugindra, Director and Superintendent: Dr. Jugindra, Director officiating as Medical Superintendent of SHRI passed his MBBS from Calicut University, Kerala in 1986. He did his MS in General Surgery from Calicut Medical, College, Kerala in 1995 and later trained in laparoscopic surgery, endoscopy, and endourology.

Dr. Bonney Devi, Director Finance: Dr. Bonney Devi was the founder member of Shija Hospitals and wife of the Managing Director, Dr. Kh. Palin. After obtaining her MBBS degree in 1986 from RIMS she joined the venture by actively participating in the clinical practice and management. She is trained in Laparoscopic Surgery and Ultrasonography.

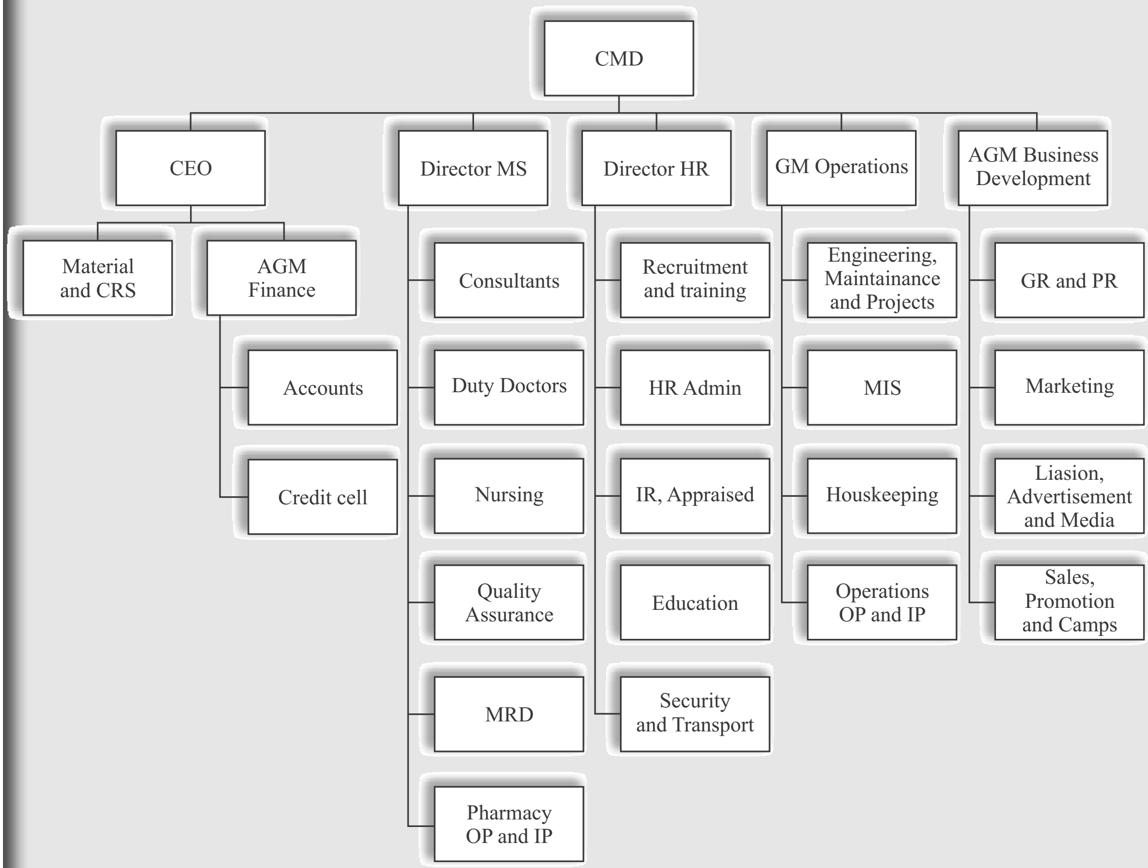
Ms. Gayatri Devi, Human Resource: Ms. Gayatri Devi did her MA in Sociology from North East Hills University; Shillong in 1984. She is the wife of Dr. Jugindra, the Medical Director of SHRI. She worked as a Counsellor in Meghalaya State Social Welfare Advisory Board from 1986 to 1990. She was looking after Human Resource Development of SHRI since 1995.

ORGANIZATION AND PERSONNEL

SHRI had CEO (Director, Finance & Administration), Medical Superintendent, Human Resources Manager, General Manager, Business Development Manager, Assistant Manager (MIS) taking care of administration, medical and others. They were reporting directly to the MD. Besides, there were expert management consultants from outside invited to assist the MD in the management of affairs of the hospital. A marketing section was there headed by the Business Development Manager who was an MBA. The front office people were restructured and kept under marketing group. Team building exercises were conducted for the employees from time to time. The existing organizational structure of SHRI could be seen in Exhibit 5.

Dr. Cretan, (27) the first son of Dr Plain completed his MBBS degree and joined the hospital as Medical Officer in July 2012. Ms Manjushree (26) an MBA married to Cretan also joined the hospital. She is working in various areas of hospital management by contributing in Project, Business Development and HR. She is an internal auditor for ISO for quality improvement in the hospital. She was a participant in the World Bank capacity building workshop which is a continuous capacity building exercise for the winners of World Bank 'Development Marketplace Project' competition 2014 for Innovative solutions. Her amiable nature and command over language has helped her build relations with various external stakeholders of the hospital in the short duration at the hospital. Ms. Aisha (24) the only daughter of Dr Plain and Dr Bonny is also an MBA-Healthcare and working with the hospital since 2013. The second and last son of Dr Plain, Mr Pamper is pursuing M. Com. in Bangalore University. Besides the top management from the family, SHRI has about 460 staff members consisting of medical, paramedical and administrative employees.

Exhibit 5 Organisational Structure of Shija Hospitals and Research Institute



COMPETITION IN HEALTH SECTOR IN MANIPUR

The private healthcare providers were mushrooming in Manipur in the last 5 years' time. The healthcare sector had been recognized as Industry by the Government of India, thereby given the chances of long term loans to these private hospitals. Few of the competitors of SHRI were Regional Institute of Medical Sciences (RIMS), and J.N. Hospital, Imphal Hospitals & Research Institute, Christian Medical Centre, Raj Medicity, Sky Hospital, Langol View Charitable clinic and Maternity hospital, Advance Super specialty and Research Institute, Imphal Hospital etc.

The main competitor of SHRI was RIMS, a Govt. of India run hospital well equipped with the latest state-of-the-art technology equipment like MRI etc. RIMS being a government hospital had super specialist and specialist doctors and the treatment cost was very low as compared to the private hospitals.

Among the main competitors in the private segment were Imphal Hospitals and Research Institute which was well equipped by super specialist doctors and state of the art technology equipment and well trained staffs. The Hospital had In-House Canteen, PCO and Pharmacy. As the hospital was located in the busy and crowded commercial area, there was not much scope for future expansion, which was one of the drawbacks of this hospital.

SHRI faced a tough competition from Chambers of Commerce Hospital, one of the oldest private hospitals in the state. Most of the super specialist and specialist doctors of the state worked as consultants in this hospital. Being in the heart of the Imphal city, the hospital had an advantage of ease access.

Christian Medical Centre was also one of the toughest competitors of SHRI. It was a missionary hospital run by the Christian missionaries. Funds for Infrastructural development were not a problem for this hospital. However, it had shortage of super specialist doctors. The treatment charges in this hospital were comparatively lower.

MARKETING STRATEGY

The hospital used the latest state-of-the-art technology at par with the world standard medical treatment with a human touch at an affordable cost. Quality service was the top priority of the hospital. Quality Service delivery was the main marketing tool to create brand image of the hospital. The front people were trained with the marketing mindset. It was the relationship marketing they focused in order to satisfy and thus to delight the customers.

In fact, SHRI was committed to providing healthcare solutions of international standards by creating the ideal work environment and ensuring the practice of safe and ethical medicine. For improving quality, customer satisfaction surveys were conducted from in-patient and out-patient feedback through monitoring sheet and feedback forms. Hospital surveillance was constantly being carried out for air, drinking water and housekeeping quality etc. Employee feedback survey was also conducted to know the satisfactory level of the employees as they were the important team members in the hospital. SHRI had systems in place to track trends and analyze all accidents, incidents and complaints and to identify opportunities to implement actions that reduced and eliminated future accidents.

An independent assessment of patient satisfaction was reported in a research study by two researchers. The study concluded that patient satisfaction with general services of SHRI, such as location, parking space, sitting arrangement, pharmacy, maintenance and such other factors, was assessed as good to very good. The level of satisfaction with services of hospital staff such as access to specialists, waiting time, explanation of procedure, medication, and helpfulness of nursing staff was evaluated as very good to excellent. This indicates that while SHRI is viewed as a good hospital there is scope for further improvements.

SHRI was positioned as a technology based hospital. It was based on the holistic approach with all the state-of-the-art medical treatment facilities under one roof. SHRI was providing under one roof, 'state of the art' total solution for treatment of stones at different locations of the body. It had specialised in 'Key Hole' Surgeries and endoscopic procedures which were at par with the world standards. The hospital used the latest Key Hole Surgery (Minimally Invasive Surgery), ERCP for removal of CBD stones using Video endoscope, Extra Corporeal Shock Wave Lithotripsy (ESWL) which broke up the stones in Kidney, Urethra and Bladder without surgery using Shock Wave, PCNL (Per Coetaneous Nephro-Lithotomy) which involved the removal of large kidney stones via single small hole by breaking into small granules under vision on the monitors, Cystoscopic Litho Tripsy (CLT) endoscopic removal of stone from urinary bladder through natural passage without cutting or key-hole. Minimally Invasive Surgeries had the advantage of less pain, less bleeding, less hospital stay, less medication, less chance of infection, less scar, early recovery to normal life and paradoxically more economical over conventional procedures.

Presence of specialists at anytime within the campus or anywhere on call was the critical success factor of SHRI. The doctors were at the service at anytime. Regular clinical as well as management development sessions were held every week for accommodating change or innovation. It encouraged its personnel and physicians to attend National and International conferences on the full sponsorship of the hospital so as to inculcate with the latest diagnostic or management techniques in the hospitals. The hospital had round the clock diagnostic section. SHRI had won the goodwill image of a premium brand in the healthcare services in the region. It was mainly targeted to the upper echelon of the society. This could be seen clearly from Exhibit 2.

SHRI adopted quality healthcare publicity campaign by organizing many health awareness workshop, conferences, and free medical camps. SHRI was the first to launch measles vaccination in Manipur in 1986, Hepatitis-B vaccination in Dec.1997. It had organized 3 live demonstration and interaction sessions on Laparoscopic surgery and Harmonic Scalpel for ASI Manipur chapter and Interns & House Surgeons Association, RIMS in the last couple of years. The medical team of the hospital had presented forty Scientific Papers and twenty video demonstrations in state, national and International conferences. SHRI organized seminar on "Futuristic Health Care-2000 AD & beyond" in Dec.1998 and organized workshop on FESS & Microsurgery" for E.N.T in June 1999 and "Thermachoice" for Gynaecologist in Sept.1999.

SHRI had come up with special scheme to attract the patients. General Ward—Rs.24,000; Special Ward-Rs.30,000; Deluxe Ward—Rs.35,000. These were the flat slabs fee for the respective wards category. These were the inclusive fees for Laparoscopic Cholecystectomy and Laparoscopic appendectomy patients inclusive of all, right from the admission to the discharge of the patients from the hospital.

In order to make available the quality healthcare from the specialists from Max Healthcare Pvt. Ltd., Delhi to the people of the state and neighbouring states, SHRI had started SHRI-MAX Telemed Centre for telemedicine service from September 2005.

The Hospital had round the clock in house facilities including Pharmacy for internal supply system of medicines, canteen and PCO etc. To cater to the need of the people of Manipur in the rural areas SHRI opened Shija Hospitals Information Centre at Kakching and Thoubal respectively.

TECHNOLOGICAL ACHIEVEMENTS OF SHIJA HOSPITALS

SHRI has had several technological achievements to its credit some of major ones are briefly mentioned below.

SHRI was the first centre in the North East India to start cryofreezing which is non-operative treatment of piles in 1986.The hospital performed Free Flap surgery for sole defect successfully in Dec.1995 for the first time in North East India. It installed laparoscopic surgery equipment (keyhole surgery) for the first time in Manipur in April 1996 for gall bladder, appendix, uterus, and ovaries. Advanced laparoscopic surgeries like hernia, rectopexy, highly selective vagotomy, hiatus hernia, GJ andvagotomy, and cysto-gastrostomy were done with the most advanced technology thus saving them from going to far-off places to seek medical treatment and spending huge sum of money.

SHRI installed the most advanced harmonic scalpel for bloodless surgery for the first time in Asia in January 1997, infra-red coagulator in September 1997 for the first time in Eastern India, upper GI video endoscopy and video colonoscopy in September 1998 for the first time in the state. Several thousand operations had been performed using this revolutionary instrument.

SHRI performed successful puppetry keyhole surgery for gall bladder (through two tiny holes instead of conventional four holes) in November 1997. It was the first centre in the north-east to perform such an operation.

It was the first to provide private ambulance service in Manipur with AC Voyager Amb lance fitted with oxygen, suction machine and life-saving drugs round the clock from 1st of Jan 1999. It provided ambulance services up to Guwahati.

The hospital installed Functional Endoscopic Sinus Survey, a revolution in E.N.T. surgery on 21st February 1998 for more logical treatment of sinus and nasal problems using video-imaging system.

The Hospital installed Arthroscopy set on 21st February 1999 which by using video-imaging system the inside of knee joint can be visualized through 4 mm incision and performed operation. The Hospital had Operating Microscope (Carl Zeiss) in April 1999 for use in eye, ENT, Plastic surgeries. It had ESWL (Extracorporeal Shock Wave Lithotripsy) compact Alpha, Dornier, Germany for the non-surgical removal of stones from the urinary tract.

SHRI installed Ultrasononic Instrument Cleaner in May 1999 for thorough cleaning of the surgical instrument first time in Eastern India. It had established Eye Care Foundation where they had brought facilities like Green Laser, Vitrectomy, and Cold PHACO etc. which were not available in the state. Some other major technological achievements of SHRI are presented in Exhibit 6.

Exhibit 6 A Veritable Feast of Medical Technology at Shija Hospitals

There are several other areas of technology that SHRI has tried to excel at. These include Doppler Guided Haemorrhoidal Artery Ligation—the latest German technology for non-surgical treatment of piles, Endoscopy—both diagnostic & therapeutic including ERCP, C-Arm for foreign body removal, ERCP, pacemaker placement, PCNL, URS & advanced bone fracture management VITROS 250—fully automated biochemical analyzer which can perform 250 tests in one hour, VITROS – ECI—fully automated biochemical analyzer based on dry chemistry which can detect HIV status during window period and early detection of HCV & HBV within one week of infection, Colour fundus photography & Fundus fluorescien angiography machine of Carl Zeiss, Germany to document changes in optic nerve fibre, Savoflurane Anaesthesia—ideal for general/paediatric surgery, blood pressure & heart patients, HD (High Definition) Camera with LED Lightsource (Stryker, USA), highly advanced medical video technology used in Minimal Access Surgery (MAS), Digital Colposcope with Cervical Cryotherapy machine for diagnosis & treatment of cervical malignancy, Datex Ohmeda (Aspire View, USA)—state of the art anaesthesia workstation machine, Holmium LASSER with flexible uretero-renoscope (KARL STORZ, Germany)—the most advanced non cutting treatment technology for kidney and urinary tract stones, Allura FC Cath Lab. (Philips), which is capable of handling awide range cardiac procedures including diagnostics, interventions, pacemaker implantations and electrophysiology, Power Assisted Liposuction (MICROAIRE, USA) for transforming body shape by removing excess or unwanted fat cells from the abdomen, waist, hips, buttocks. Thighs etc., Fractional Carbon Dioxide LASER, one of the top 6 anti-aging breakthroughs of the century for rejuvenation, resurfacing, reduction and removal of scars, pregnancy stretch marks, wrinkles, old age spots & blemishes, sun damaged skin, facial pigmentation, LASER peel etc., CIRRUS HD, Optical Coherence Tomography, OCT-500 (Carl Zeiss), state of the art 3D imaging technology for the diagnosis and management of glaucoma, retinal diseases, cataract and corneal diseases, Nd:YAG Laser for laser peripheral iridotomy (treatment and prevention of acute glaucoma), NBI (Narrow Band Imaging)—superior endoscopic technology for the early diagnosis of gastric cancer, Green LASER for treatment of diabetic retinopathy, QS Nd: Yag Laser for tattoo & scar removal, EEG, EMG, NCV, VEP to rule out neurophysiologic disorders.

State of the art Shija Blood Bank & Transfusion Services is a Public Private Partnership initiative, funded by North East Council, Shillong and Planning Department, Govt. of Manipur. This is the only licensed blood bank accredited by the National Accreditation Board for Hospitals & Healthcare Providers (NABH) in North Eastern states. It is equipped with Nucleic Acid Test (NAT) facility to screen HIV, Hepatitis B&C Virus which is the first installation in the entire Eastern India.

IT APPLICATIONS

SHRI pioneered in introduction of IT in healthcare and had a pool of human resources combining expertise, technology and skill. The hospital was equipped with the hospital information system which assisted in less waiting time for the patient in the OPD, record keeping, discharge, and accounting. Thus, the delivery system was based on cohesive work culture of medical, nursing, paramedical and managerial personnel.

SHRI was the first fully computerized hospital. It integrated all the departments through Local Area Network on a Linux based platform using IBM Xeon server for better record keeping, reporting, accounting and management of hospitals. Shija-Max TeleMed Centre is the first private telemedicine centre in Manipur. It also installed firewall, network and centralized printing.

PURSUIT OF QUALITY AT SHIJA HOSPITALS

The ISO 9001:2008 standard was an international reference for quality management requirements and continuous improvement in business-to-business dealings. It was a generic standard that could be applied across all industries, regardless of the products or services delivered. The standard referred to an organization's structure for managing its process or activities that transform inputs of resources into a product or service to meet customized objectives, such as satisfying customer requirements.

Companies' compliance to ISO standards were certified by third-party audit and registration organizations, such as BSI (British Standards Institution), Kolkata. To qualify for ISO 9001:2008 certification, SHRI underwent 1 year registration process that included quality management system development, a management system documentation review, pre-audit, initial assessment and clearance of non-conformances, all of which worked to identify corrective actions that eliminated non-conformance to the quality management standard. The process culminated in a comprehensive 4 days registration audit by BSI, Kolkata. Following correction and closure of non-conformance actions, SHRI received its ISO 9001:2008 certificate of registration on October 28, 2006, thereby becoming the first ISO 9001:2008 certified hospital in the state. To ensure that SHRI maintained compliance to the quality management standard, BSI, Kolkata would perform audits for every 6 months and would require regular upgradation of Quality Management System.

COOPERATION AND COLLABORATION AT SHIJA HOSPITALS

SHRI entered collaborations with Guwahati Neurological Research Centre (GNRC), Guwahati and Max Healthcare Pvt. Ltd., New Delhi.

GNRC had been providing manpower development programme. GNRC had been providing in-depth 6 months training programme to the nursing staff of SHRI in the Intensive Care Unit (ICU) service. GNRC was the project and management consultant of the hospital providing services in the field of employee motivation, Employee welfare scheme etc. It had provided SHRI with service rules concerning about the employees recruitment, selection, job description, job specification in the probationary period and henceforth.

SHRI was recognized as Smile Train partnered hospital by Smile Train Inc., USA in 2006. Smile Train Shija Cleft project had been providing free cleft lip and palate repair surgery since then.

Shija-Max TeleMed Centre, Imphal was the Telemedicine centre started in collaboration with Max Healthcare Pvt. Ltd, New Delhi to make available the services of the super specialist doctors of Max Healthcare, Delhi to the patients in Manipur. Shija Hospitals was also in collaboration with the Apollo Indraprastha Hospital, New Delhi in enhancing Cosmetic Surgery for Breast Augmentation using Silicone implants for the first time in Manipur. SHRI had a tie up with the Babina Diagnostics, Imphal for Laboratory test concerning MRI etc.

Shija Vitamin A Project, 2014 is to provide free Vitamin A supplements and Albendazole to all children between 6 months and 5 years of age. It is a collaborative effort of Shija Health Care & Research Institute and Vitamin Angels, a US based NGO, working with the sole objective of giving Vitamin A supplements to all children in developing countries. A simple cost effective dose of vitamin A every six months can prevent blindness and reduce under-five child mortality by 24% in at risk populations. Vitamin A Deficiency (VAD) is the most common cause of preventable blindness in children under five and reduction of VAD has a vital role in maintaining eye health and vision, growth, and immune function.

Shija Narayana Heart Centre is a collaborative effort of Shija Hospitals and Research Institute and Narayana Health in 2014. Narayana Health (NH), formerly known as Narayana Hrudayalaya, is a trusted name in Healthcare in India. NH, one of India's largest and World's most economical healthcare service providers is set to emerge as a global industry model for its ability to reconcile quality, affordability, scale, transparency, credibility and sustainable profitability. SHRI in collaboration with Narayana aims at providing quality cardiac care at an affordable cost in the region.

EXPANSION STRATEGY

SHRI is looking forward to upgrade its Nursing School into Nursing College for Graduate and Post Graduate providing the facilities of well-equipped Classrooms, Laboratories, Workshops, Computer labs, Library and online Library, Hostel facility in the campus with Internet access, Other basic need facilities etc. They also have plans to upgrade and provide scope for MPhil and PhD studies.

To expand further, SHRI is planning to have a new OPD and diagnostic in a single block sharing campus with main hospital accommodating 30 consultation rooms with 5 collective discussion rooms, 6 major and 5 Minor OTs. This block will house all diagnostic facilities such as Radiology & Pathology etc. It will also accommodate 300 beds in different categories mostly patients undergoing conventional treatment, 40 Bedded Trauma care with a facility for Triage, Resuscitation & observation, Pharmacy and General stores and Cafeteria.

SHRI also have plans to open a Trauma Centre within the perimeter of city to facilitate urgent medical & trauma need providing diagnostic facilities such as CT, ECG, Ultrasound, and X-Ray. It will have operation theatre for Emergency OTs, 20 bedded observation facility, transferring facility to main hospital, Online file sharing system for urgent sharing and seeking of information / comments and ambulance fleet management.

SHRI, having a strong relation with Myanmar, felt the need of opening a secondary care hospital at Moreh, a town in Manipur bordering with Myanmar.

Shija Eye Care foundation is the leading brand in the region. Considering the demand of quality eye care system, SHRI is planning to establish an Eye care Hospital within the campus having eye banking and cornea transplantation facility. The catchment area will include Nagaland, Mizoram, Myanmar and Manipur.

Other projects include Cancer hospital, renal transplantation, joint replacement surgery, infertility treatment etc.

BIO-MEDICAL WASTE MANAGEMENT

SHRI strictly follows the system of segregation of bio-medical waste at source and ultimately appropriate treatment and disposal of waste through incinerator, shredder, sharps pit, deep burial etc for the safety of environment. Shija Bio-Medical Waste Management is now recognised by the Manipur Pollution Control Board on recommendation of Central Pollution Control Board as the common facility for the entire state. SHRI had a strict bio-medical waste management as laid down by the Ministry of Environment and Forests, Govt. of India. Bio-medical waste like human anatomical waste (human tissues, organs, body parts); microbiological & biotechnological waste (waste from laboratory cultures, stocks or specimens of microorganisms, live or attenuated vaccines, human cell culture used in research and infectious agents from research and industrial laboratories, waste from production of biological, toxins, dishes and devices used for transfer of cultures) were incinerated/autoclaved/microclaved or were buried deep as a land fill.

COMMUNITY REACH PROGRAMMES

SHRI had done various community reach programmes for the welfare of the people. Their doctors were participated in the Gujarat Earthquake operations. Every now and then free stone detection camps, dental, ENT and Eye care camps and blood donation camps were held to detect stone diseases in Manipur. Health awareness programs were publicized in print and electronic media. SHRI participated regularly in Pulse Polio Immunization.

Smile Train Shija Cleft Project provided free cleft surgery to more than 3000 children from Manipur and neighbouring states since 2006. Distribution of Vitamin A is another initiative of SHRI.

SHRI'S INITIATIVE TOWARDS MYANMAR

Shija Hospitals & Research Institute (SHRI) has long been associated with the people of Myanmar for healthcare reasons. Shija has always been in the forefront in Corporate Social Responsibility (CSR) activities by providing free cleft lip and palate surgeries to over 3500 patients, under Smile Train Inc., New York, and giving sight to over 6000 blind persons through free cataract surgeries.

Mission Myanmar Phase I

To mark the beginning of its contribution towards the neighbouring country, a team from Shija Hospitals started the venture of "Mission Myanmar Phase I for cleft lip and palate" in May 2013 wherein 103 operations were performed on 87 cleft patients during the mission.

Mission Myanmar Phase II

In continuation of its service to Myanmar, "Mission Myanmar Phase II for sight" was performed by Shija Eye Care Foundation in Dec 2013 which was sponsored by our Honourable Chief Minister of Manipur. The mission was also a successful one wherein 179 cases of cataract blindness were operated.

Mission Myanmar Phase III

Following the two successful missions, "Mission Myanmar Phase III" also brought a huge impact in bringing the two nations together. During the mission, His Excellency, Chief Minister of Sagaing, U Thar Aye, Union Minister of Health, Myanmar, Dr. Pe Thet Khin and Indian Consul General, Dr. Nanda Kumar, visited the camp on 22nd March 2014 and appreciated and encouraged the Mission Myanmar team for their good work. The team expressed their gratefulness to the visiting dignitaries and also the hospital staff for their tremendous support of the camp. Indian Consul General has invited Shija to extend services in the division of Mandalay and his Excellency, Chief Minister of Sagaing has also advised the team to do more such services in Kale in future.

Shija Overseas Training Program for Key-hole Surgery and Critical Care

Shija has also proposed 3 months training on Key-hole Surgery and Critical Care for surgeons and nurses of Myanmar under Shija Overseas Training Program. Accommodation would be provided and training fee will be waived off. For the surgeons of Myanmar AMASI is considering scholarship during the training program at Shija. With the successful culmination of the three missions, SHRI looks forward for more services to theneighbouring countries and envision a bright future for the state of Manipur believing that India's Look East Policy will enhance the socio-cultural relationship between Manipur and Myanmar because of close proximity and earlier relationship.

PAST AND CURRENT BUSINESS PERFORMANCE OF SHIJA HOSPITALS

The business of the hospital was quite satisfactory. There were many patients from the state as well as from the neighbouring states. They could even attract patients from Myanmar too. The rate of patients' turnover in the hospital had been increasing year after year both in the OPD and IPD section of the hospital. The OPD and IPD treatment of patients in the last nine years were depicted in Exhibit 7 and Exhibit 8 respectively.

Exhibit 7 Mean OPD Patients for the Period 2000-2008

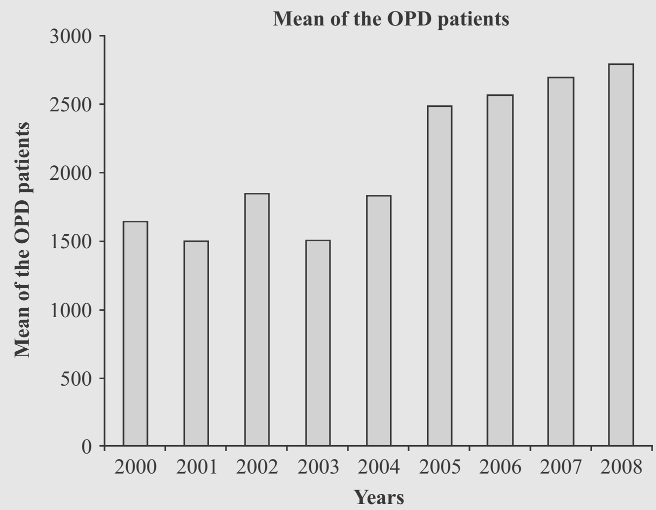
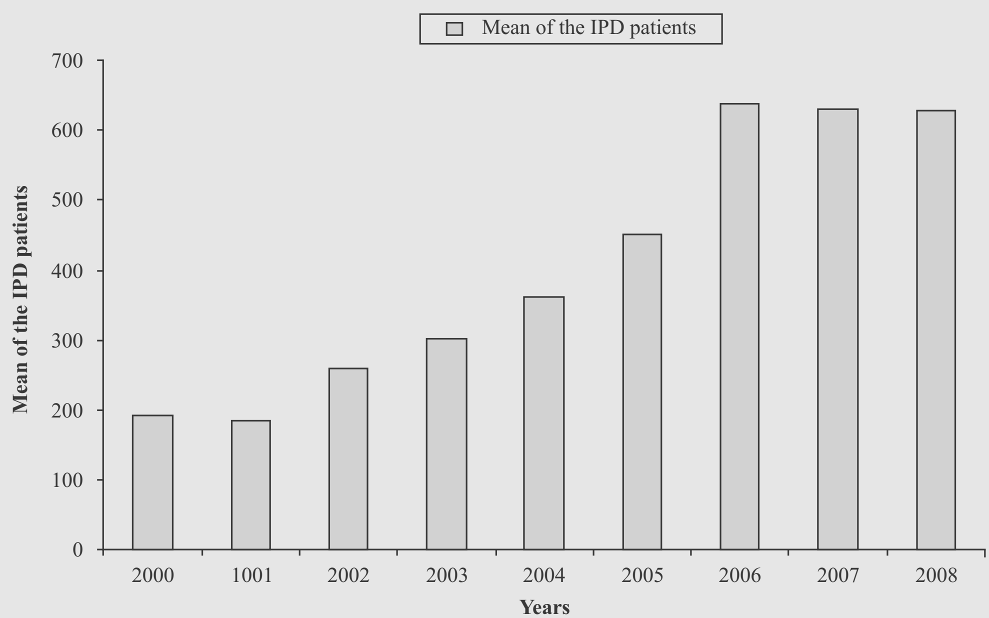
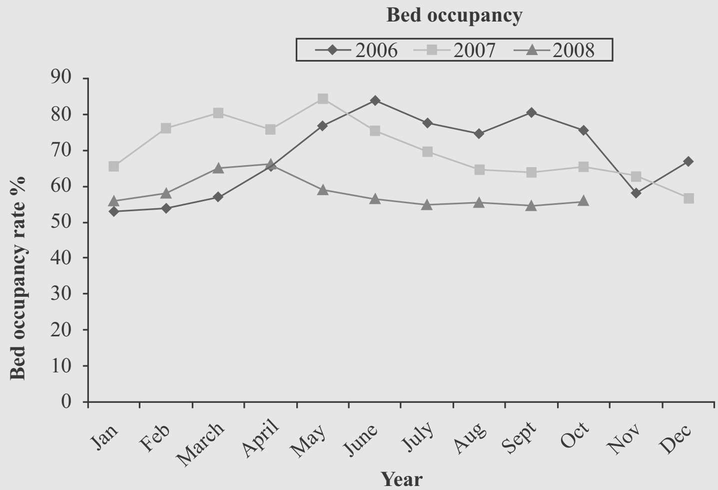


Exhibit 8 Mean IPD Patients Admission for the Period 2000-2008



SHRI got ISO 9001:2008 certification on October 28, 2006. ISO 9001:2008 certification was based on Quality management system. It was seen that OPD as well as IPD patients increased manifold during 2006-2008 with the introduction of ISO 9001:2008 as compared to 2000-2005 (without ISO 9001:2008). This showed that ISO 9001-2008 certification which followed the total quality management (TQM) philosophy increased the organization's performance.

Exhibit 9 Bed Occupancy Rate for the Period 2006-2008



Average Bed Occupancy rate and Year	
Year	Average Bed occupancy rate (in Percentage)
2006	69.01
2007	70.10
2008	58.13

The bed occupancy rate for the year 2006, 2007 and 2008 are given in Exhibit 9. The average bed occupancy rate of 70-85 % is ideal for hospital effectiveness. 85-95 % occupancy rate indicated that there was a high chance of infection rate in the hospital. It was seen that average occupancy rate were 69.01 % and 70.10 % in 2006 and 2007 respectively which indicated that the hospital effectiveness with regards to occupancy rate were ideal. In 2008, the average occupancy rate was 58.13 % which was below the ideal state. In 2008, the hospital was not performing well with regards to the bed occupancy rate because the main road leading to the hospital was cut off because of the sewerage project in Manipur.

CHALLENGES ENCOUNTERED

Frequent bandh and economic blockade in the region hampered the much needed perennial supply of gas, life-saving drugs and other amenities of the Hospital. SHRI did not have all the laboratory facilities in the Hospital campus like the MRI so it had to depend on the private partner like Babina Diagnostics which was located at about 3 km. from SHRI. Some of the equipment were state-of-the-art technology but they were being used sub-optimally because the poor people could not afford to get the high cost quality service of the hospital. So maintenance cost of the equipment was quite high.

SHRI was using the software known as MEDIMATRIX developed by GNRC InfoTech, Guwahati, as the Hospital information management system but there was a flaw in the Database retrieval system. Database retrieval took a lot of time thus increased the waiting time in the OPD, Admission, reporting and Discharge of the patients which happened to be a barrier to prompt and quality service. The software was not systematic in the database management and inefficient in information retrieval. So these days SHRI was using R_X software developed by AVANTTEC, Chennai on a customized basis.

As the banks and financial institutions in the state were quite conservative and getting finance from them were not an easy job. There was a shortage of qualified manpower in both technical and administration section. However, to manage with the available resources SHRI sponsored their staffs for training outside the state. They were also trained and co-coordinated from the Management Institutions in the State. There were some employees who were not satisfied with the salary structure. Doctors were highly paid whereas the nurses, non-medical executives, paramedics, and others were not paid to the extent of their satisfaction. Doctors were highly motivated but not so with the other staffs. Recently, one executive Human Resource was inducted.

There was a problem in the maintenance of the state of the art technology equipment as there were no qualified engineers and technicians in the state. Because of the strategic location of the state, there were situations like non-availability of instruments, parts and consumables. To meet these needs SHRI had to have large buffer stocks leading to huge idle inventory.

FUTURE OUTLOOK OF SHIJA HOSPITALS

Keeping in view the competitive market place and the changing environment, Dr Palin chalked out certain strategies to ensure competitive advantage and continued growth and quality service of the hospital. Dr Palin was working on certain alternatives like consolidating the resources for expansion (Key-hole Surgery) and remaining in the current businesses, building SHRI into a Multi-specialty hospital and diversifying into the Nursing School for training the nurses for their future requirements based upon their needs and a medical college. As SHRI was a hospital cum research institute, the management might expand into a Post-graduate or Post-Doctoral programme in the field of Medical sciences. At the same time, SHRI had a plan to open a centre for homoeopathic medicine, Infertility Centre, Dialysis, Anti- Ageing Centre.It had the plan for opening Nursing College, Medical College, Paramedical Institute, Health Care Management Institute and expanding the existing health care facilities into a HEALTH CITY model. As SHRI looks to the future there are many issues worth considerations: (a) what competitive strategy SHRI had to adopt to face the existing as well as potential competitors; (b) whether SHRI should go for diversifying into a medical/ paramedical colleges, PG course or homeopathic medicine etc. (c) what could be thepossible strategic alternatives available for SHRI for future growth prospects?

Notes and References

1. Official website of the Government of Manipur at *http://manipur.gov.in/* accessed on January 10, 2015.
2. Directorate of Health Services, Government of Manipur at *http://www.manipurhealthdirectorate.in/* accessed on January 10, 2015.
3. Nandita Laishram and Robita Sorokhaibam, "Appraisal of Patient Satisfaction in Shija Hospital and Research Institute, Manipur, North-East India" *International Journal of Scientific and Research Publications*, 2 no.11(November 2012): 1-4 at *http://www.ijsrp.org/research-paper-1112/ijsrp-p1177.pdf* accessed on January 10, 2015.
4. Portal for Public Health Commentary at *https://manipurhealthservices.wordpress.com/tag/health-indicators/* accessed January 12, 2015.
5. Seram Neken, "Reaching out to neighbours: Healthcare service in Manipur"*Hueiyen Lanpao* (English Edition), April 09, 2013 at *http://e-pao.net/epSubPageExtractor.asp?src=education.Health_Issue.Reaching_Out_To_Neighbours_Healthcare_Service_in_Manipur* accessed on January 10, 2015.
6. Hospital documents and papers and interview records at Shija Hospitals and Research Institute, Manipur.

Case 7

Providing Access to Water in Remote Areas: Trunz Water Systems in India*

As of June 2012, over 550 TWS projects were operating in more than 30 countries all over the world. TWS was repeatedly participating in global forums and expos to achieve the vision of bringing its simple, self-sufficient, mobile and innovative water treatment and solar power solutions into practice all over the world. However, the initial investments for TWS's solutions were relatively high compared to local offerings including individual water filters. However, TWS's solutions were often much cheaper in the long run. In mid of October 2012, TWS's Chief Operating Officer (COO) Lars Willi, along with the entire top management of TWS was thinking about innovative business models that would allow them to over come the existing market entry barriers for TWS thereby helping to channel the solutions of TWS to reach several untapped markets in future. Especially India was basically still a white spot on the map with huge market potential for TWS. Although Lars and his team were proud of company's present position in the global market; he felt still a long way for TWS's solutions to be recognized in an important market like India. He knew that if they wanted to enter India successfully they had to come up with innovative business models.

COMPANY BACKGROUND

Trunz Water Systems AG (TWS) was founded in 2007 by a team of 3 experts (water treatment, metal construction, project management). It was the youngest business unit of the Trunz Group in Switzerland. The Trunz Group had 180 employees, 3 production facilities with a production area of 18,000 m^2 and modern high-tech equipment guaranteeing highly professional manufacturing competence and Swiss product quality. The Trunz Group, located in Steinach, Wittenbach and Langenthal, was a leading company in metal construction with 40 years of experience (Exhibit 1). It had modern infrastructure with robotic systems and fully automatic laser cutting equipment. The Swiss based company TWS as a subsidiary of the Trunz Group developed, manufactured and distributed technically advanced and cost efficient solutions for water purification and desalination as well as solar and wind power supply for its water treatment solutions.Its management and employees were proud to contribute solutions to one of the biggest challenges on the planet—providing people with access to clean drinking water.

Every year on 22nd March, TWS celebrated the World Water Day as a means of focusing on the importance of potable water. TWS put this idea into action by providing the people in remote areas with access to safe drinking water. In cooperation with its dealers worldwide, TWS constantly worked on new projects and collaborations to supply remote areas with clean drinking water. Mobile and solar powered water pu-

* This case has been written by Gopalakrishnan Narayanamurthy, Fellow Program in Management student at Indian Institute of Management, Kozhikode and Dr. Roger Moser, University of Gallen. It is exclusively intended as the basis for class discussion rather than to illustrate either the effective or the ineffective handling of a management situation. The case was compiled from interviews, internal documents, and publicly available sources. The case was developed without external funding. The authors are grateful to the management at Trunz Water Systems AG.

rification systems designed and developed by TWS were the perfect solution to help the people in remote areas. However, the solutions of TWS required high upfront investments to create long-term and efficient access to clean drinking water. Designed to provide relief to the communities and camps affected by a lack of power supply and safe drinking water, TWS solutions were capable of purifying water from almost any polluted freshwater source, including rivers, creeks, and wells. A main benefit of the TWS solutions was its exceptionally low energy consumption.

Exhibit 1 Trunz Company History

1972	Foundation of an installation company for ventilation and air conditioning, Wittenbach
1979	New building for production and office, Wittenbach
1988	Building up of sector laser technology
1991	Takeover of coachwork body metal forming, SaurerArbon
1995	Foundation of air duct system, Langenthal
1997	Relocation metal technology to Arbon, second development Wittenbach
2000	Development and Marketing of the trunz.collection. Exclusive design-furniture from metal.
2002	Extension operation in Wittenbach
2003	Foundation of Trunz AG, automotive / take over part production NAW (Daimler Chrysler). Beginning of development and distribution of Trunz Water Technology
2007	Foundation of Trunz Water Systems AG, Arbon
2009	Foundation of Trunz WS America C.A., Caracas
2009	Opening Trunz Technologie Center in Steinach.

THE NEED FOR TWS SOLUTIONS

More than one billion, i.e. nearly 1/7th of the 2012 world population, did not have access to safe drinking water. Estimations stated that 5.3 billion people i.e. 2/3rd of the population will suffer from water shortages by 2025. 2.2 million people died every year in developing countries from waterborne diseases. Diarrhoea had killed more children in 10 years than all the people lost to armed conflicts since World War II. Upto 80 per cent of all the diseases in developing countries were related to contaminated water. Waterborne diseases cost the Indian economy 73 million working days every year. The average distance woman in Africa and Asia walked to fetch drinking water was 6 km every day. The average American individual used 400 to 700 litre of water every day—an average Asian/African family in rural areas used only 20 litre of water every day. Studies had also reported that every 1 US$ invested in water and sanitation resulted in 9 US$ in saved time, health costs etc. Twenty-five per cent of the urban population in developing countries spent up to 1/4th of their household income on bottled water and it was alarming to notice that already half of the world's 500 major rivers were seriously depleted and polluted. Predominantly poor people living in remote communities in developing countries sufferedmost from contaminated water. In order to achieve the UN Millennium Development Goals for drinking water supply, large efforts and co-operations between government and non-government organisations were required to make progress in gaining access to a safe water source for everybody.

Studies conducted by UNICEF/WHO indicated that the Water Supply and Sanitation Millennium Development Goal target will be missed with most of the un-served populations in rural Asia and Africa. For example, the number of organizations involved in addressing the water and sanitation issues in South Asia were very limited as compared to any other development sector. The problem was that there was noformal training or education designed to create specialized manpower for the water and sanitation sector. About 99 per cent of university education in India did not offer courses on social engineering aspects related to water and sanitation that were essential to address the needs to promote water and environmental sanitation programmes.[1] The data on percent population in India having access to improved water supply and sanitation facility as per NFHS-3 was considered to combine the states into four distinct groups namely high improved water supply and toilet coverage, high improved water supply and low toilet coverage, low improved water supply and high toilet coverage and finally low improved water supply and low toilet coverage (Exhibit 2).The groups had been segregated into high and low coverage using the median coveragevalue for each indicator (access to improved water supply and access to toilets).[2]

Exhibit 2 Classification of States in India into four Groups based on the different Levels of Coverage of Water and Sanitation Infrastructure

High water, low toilets	**High water and toilets**	
Jammu and Kashmir Arunachal Pradesh **Assam** Manipur Meghalaya Mizoram Nagaland Sikkim Tripura Goa Kerala	Delhi Punjab **West Bengal**	85% HH with improved water supply
Rajasthan Chhattisgarh Madhya Pradesh Orissa Jharkhand	Haryana Himachal Pradesh Uttaranchal Uttar Pradesh Bihar Gujarat **Maharashtra** Andhra Pradesh Karnataka Tamil Nadu	
Low water and toilets	56% HH with toilets **High toilets, low water**	

The 2011-12 Annual Report of Indian Ministry of Drinking Water and Sanitation mentioned several major issues including sustainability, water availability and supply, poor water quality, centralized vs. decentralized approaches and financing of operations & maintenance (O&M) cost, ensuring gender equity, missing focus on socially vulnerable groups such as scheduled caste (SC), scheduled tribes (ST), minorities and people residing in left wing extremism affected districts etc. The plan-wise allocation of funds by the Central

* Study titled "*Evaluation of Existing Capacities in WATSAN Sector*" initiated by *Plan International* and supported by *Wash Institute* in 2009. Available at *http://www.washinstitute.org/pdf/EvaluationExisting.pdf*

and State Governments for rural water supply was recently increasing exponentially. The current status of provision of drinking water in rural areas measured by the percentage of habitations where the population was fully covered with adequate and safe drinking water, as per information entered by States on the online monitoring system of the Ministry, was about 72 per cent of total rural habitations. The rest were either partially covered or had drinking water sources contaminated with chemicals. Large inter-state variations in the coverage of households with piped water supply were also noticed. Percentage of piped water supply varied from 1.1 per cent in Bihar to 99.1 per cent in Puducherry and 87.3 per cent in Tamil Nadu. There were 8 States viz. Bihar, Uttar Pradesh, Jharkhand, Orissa, Assam, Chhattisgarh, West Bengal and Madhya Pradesh that had less than 10 per cent coverage of households with piped water supply. The Annual Report insisted to initiate special efforts in the 12th Five Year plan of India to raise levels of these states up to least at par with that of the other states.

An assessment study onthe impact and sustainability of "*Nirmal Gram Puraskar*" (an award given to those *Panchayati Raj* Institutions which achieve a 100 per cent open defecation free environment) conducted by the CMS Research House for the Department of Drinking Water and Sanitation in the Ministry of Rural Development in March 2011 reported that nearly 38 per cent of the households covered their drinking water storage container in order to keep the water clean and pure. About 17 per cent of the total households in 12 states do nothing to keep the water clean or pure. Sieving the water was practised in 18 per cent of the sample households. Only 4 per cent of the total sample used chlorine at the source for cleaning the water. Boiling water was seen as a practice in 7 per cent of the households. Regarding methods adopted for keeping the water clean and pure in schools and *anganwadis* (i.e. a courtyard shelter started by the Government of India in 1975 as part of the Integrated Child Development Services program to combat child hunger and malnutrition), it was reported that in nearly 24 per cent of them water was kept covered, 10 per cent sieved water with cloth and 9 per cent used chlorine at water source. Around 7 per cent filtered water with special equipment's and the remaining 32 per cent of them took no measures to keep the water clean and pure.

The Government of India, both at central and state level, had initiated several schemes and projects to achieve rural drinking water supply as good as possible. The *National Rural Drinking Water Programme* (NRDWP), a centrally sponsored scheme, aimed at providing adequate and safe drinking water to the rural population of the country. *Bharat Nirman*, was a programme launched by the Government of India in 2005 to build rural infrastructure and capacities for the successful operation of water supply schemes. Another scheme named *Jalmani* was initiated by the government to install stand-alone water purification systems in rural schools. States were given a list of technologies (physical separation, ion exchange, reverse osmosis, ultra-violet radiation, hybrid of multiple methods, etc.) as well as of products to be used, and were given flexibility to select the appropriate technology/products. Keeping in view the average cost of Rs. 20,000/- per school, Rs. 200 crore had been allocated till the financial year 2009-10, with a target to cover 50,000 schools in 28 states under the programme. Under the *Swajaldhara* scheme, a MoU was signed between the Government of India and State Governments to ensure that their commitments further carried the water supply sector reform principles. People's contribution was an important component of this scheme as the users implemented the scheme and undertook its operations and maintenance by contributing ten per cent of the capital cost and operations & maintenance cost. In this scheme, the Government's role was primarily as a facilitator. Complete freedom was given by the government to gram panchayat to levy tariff and full ownership of water supply scheme assets were also provided to gram panchayats itself. The scheme integrated the key elements of demand-driven and community-based participation, wherein the panchayats/communities would plan, implement, operate, maintain and manage all drinking water schemes.[3]

In general, water provision projects in India were to be implemented in a demand-driven, decentralized, community-managed mode to achieve long term drinking water security by ensuring the sustainability of sources and systems. For example, states like Maharashtra, Chhattisgarh and Madhya Pradesh used solar power based pumping in small water supply systems in remote areas.

TWS SOLUTION PORTFOLIO

TWS offered sustainable solutions for the decentralised potable water and electricity supply in remote areas. The units were exceptionally energy efficient, independent, compact and environment friendly. All of the water treatment systems developed by TWS required low maintenance and were easy to transport for installation. The capacity of TWS solutions depended on the raw water quality and ranged from 2,000 to 100,000 litres per day. Additionally, the company provided engineering and manufacturing services for tailor-made, containerised solutions for higher capacities on demand. An ultrafiltration membrane or a reverse osmosis system (for sea or brackish water) was used to remove all viruses and bacteria (and salts) without requiring toxic chemical treatment. The solutions of TWS were compact, mobile and worked without on-going fuel costs if demanded. If necessary, the units were also capable of being mounted on a trailer or a four wheeler for easy relocation. The systems were complete and ready for installation with the availability of a borehole pump, solar racks as well as a wind power generator. All TWS solutions required only low maintenance as they were equipped with an automatic back flushing system to keep maintenance and service costs as low as possible. These key attributes of TWS made the solutions readily applicable for several applications in various domains such as emergency water supply/disaster response, rural villages, islands, schools and universities, oil and mining camps, ecotourism and also in military.

TWS focused on three modes of use namely mobile use (including solar/wind energy supply), stationary use (mostly with external energy supply) and containers (including solar/wind energy supply). Water purification units were provided separately for fresh water, brackish water and seawater (Exhibit3). TWS also included solutions for biological contamination such as viruses and bacteria as well as chemically contaminated water sources such as arsenic, fluoride, nitrate, etc. TWS solutions were not designed for treating waste water (grey or black water) or for large systems such as large scale desalination systems or to compete with household filters. In general, TWS solutions were powered by renewable energy sources (solar- and/or wind power) with the option to use diesel and grid power. The solutions had rugged design for applications in harsh conditions.

Exhibit 3 Portfolio of TWS Solutions

Portfolio of TWS Solutions			
Mode of Use / Water Source	Mobile use (including solar energy supply)	Stationary use (external energy supply)	Container (including solar energy supply)
Freshwater	• TWS 300 • Survivor 300	• TWB 003 • TWU 003 • TWM 001	• TWC
Brackish water	• TBS 300	• TBB 003	• TBC
Seawater	• TSS 300 • Aquifier 200	• TSB 003 • TWU 010	• TSC
Trunz Water Trailer	• Mobile, independent unit for disaster relief & military application; Equipped with a solar powered water treatment system (TWS 300, TBS 300 & TSS 300)		

SIMILAR SOLUTIONS IN INDIA[4]

Other than Indian government projects and schemes, few private players namely Pureit, Naandi and Sarvajal were also operating in the Indian market to provide clean drinking water to the population. *Pureit* Water Purifier was a product of Hindustan Unilever Limited (HUL) which was the largest Indian fast moving consumer goods company focusing on nutrition, hygiene and personal care. The first prototype of *Pureit*, a device adapted to treat surface water in India without running water or electricity, was field-tested in Chennai, Tamil Nadu. It was then rolled out nationally in 2008 and as of early 2012; over 5 million devices were sold making *Pureit* the No. 1 water purifier in India by volume. The first product launched was *Pureit* Classic (price US$40), with a replacement cartridge of 2250 litre costing US$11 or of 1500 litre costing US$8. In early 2010, *Pureit* Compact was launched at US$20 to enable the low income urban and rural poor families to access safe drinking water at affordable rates at half the price – half capacity but identical technology. Its replacement cartridge filtered 1000 litres and costs US$6. Subsequent versions of *Pureit* include *Autofill* (a running water tap device for US$64), with the same replacement cartridge as classic and *Marvella* (fully automatic, US$138, with replacement cartridge for 2250 litres at US$13). Two pilots were on the way to explore ways to improve distribution and penetration of the low and mid-range products in rural India. These included the *Shakti* project, which trained the village level entrepreneurs (usually very poor ladies) to sell *Pureit* along with other products of HUL's fast-moving consumer goods; and the *IVDP Micro-Finance Institution* pilot that promoted *Pureit* to self-help group (SHG) members offering a consumer loan to purchase it. *PATH*, an international NGO helped HUL to conduct a pilot project with subsidy and instalment models at the Base-of-the-Pyramid (BoP). AED, an international NGO helped HUL to conduct a pilot project making *Pureit* available on instalments to urban and rural poor families and studying the repayment trends.

Naandi Community Water Services was a social for-profit joint venture between the Naandi Foundation and Danone communities. The Naandi model was based on a partnership between the private sector, local communities/governments, and donors. Naandi played a facilitator role, ensuring overall coordination, organizing financing, community mobilization and sensitization. The financing of the equipment was possible through a mix of grants, village contributions and state authority investments. Naandi launched its first Community Safe Water Center (CSWC) project in 2005. Following 3 years of R&D and piloting in partnership with the US based organisation Water Health International (WHI) the model was massively replicated in 5 Indian states (Andhra Pradesh, Karnataka, Rajasthan, Haryana, and Punjab) to become the largest non-governmental water provision scheme of the country. At the end of 2010, it counted already over 405 plants serving over 600'000 users and 2.1m potential beneficiaries (calculated as total villagers living in areas serviced by a kiosk). As a result, Naandi water centres represented 25-30 per cent of the total CSWS installed base in India. Naandi adopted a micro DBOT (Design, Build, Operate, Transfer) business model which allowed for the creation of a broader kiosk industry, and helped this industry to evolve from an equipment provider approach to a service provider approach (i.e. assets owned by the government and/or community), and therefore lower equipment costs through heavier competition between the technology providers selected for projects. For instance, in 2008 Naandi entered into a MoU with the Government of Punjab for the provision of 5-years tendered DBOT contracts for clusters of 20 plants allowing Naandi to scale up extremely rapidly with limited financing requirements. Capital expenditures were financed by the government, which retained the assets at the end of the contract. When no government tenders were involved, Naandi insisted on having communities participating in financing the plant—making them the owners of the service and assets from the very beginning. Naandi also introduced monthly pre-paid cards with a fixed validity to incentivize users to come and consume their daily allotted volume of safe water.

Sarvajal ("Water for All") was a for-profit social enterprise that operated community water-filtration plants through local franchisees in mid-sized Indian villages (approximately 5,000 inhabitants). It was launched in

2008 and had at the end of 2010 already 120 franchises that served over 66,000 people. Franchisees bought the license (US$950) and paid a monthly fee to Sarvajal, operated the kiosk and sold water to villagers in 20 litre containers for INR 6 (US$ cents 0.6/litre), while Sarvajal took care of the installation, maintenance and quality monitoring. Franchisees typically reached breakeven in 6-12 months and each served about 110 households daily. Sarvajal lowered technology costs to US$ 3'000 per machine including set up and installation allowing for full cost breakeven for Sarvajal in 4 years. The approach of a 'plant on wheel' allowed Sarvajal to protect itself against franchisees that do not repay their fees by easily transferring the equipment if problems with the franchisee occurred. As removing the plants from the villages proved difficult, however, Sarvajal had set upa program called "*Suvidha*" which provided a pre-payment mechanism for franchisees –machines only operated for the volume the franchisees had purchased upfront. As of 2011, 120 franchisees were operating with own last mile distribution system (truck, bike, etc.) at an additional cost to users (up to INR4, or US$0.08, per 20 litres container) to also cater to neighbouring villages. Nearly 80 per cent of the franchisees provided home delivery in their villages. An e-monitoring device on each machine counted the litres, detected technical issues, checked for repairers work through individual pin codes, and sent information directly to the Sarvajal HQ. Sarvajal was also capable of blocking the machine from distance if it faced maintenance issues or other problems.

TWS SOLUTIONS IN USE

The mobile water purification units developed by TWS included trailer mounted and light weight water treatment systems enabling easy relocation and transportation to affected areas. Reliable operation was ensured through high quality components. The usage of certified filter modules assured excellent drinking water quality (viruses and bacteria free) which met WHO regulations. Low operation costs, low maintenance requirements (no consumables) and automatic backwashing filters secured high reliability and automation for the users. Simple operations with low technical skill requirements provided independent sustainable water supply systems powered by renewable energy including battery back-up. TWS solutions were less expensive compared to diesel powered equipment or bottled water in the long run (OPEX—operational expenditure). The TWS approach involved sustainable water purification (non-chemical, long-term) combined with a triple bottom line approach including social, economic and ecological objectives. Outstanding long-term support through local service partners and/or service contracts provided both technical and local assistance for communities to run the systems independently. The impact of TWS solutions on the health standards of rural communities and providing of a better quality of life (with less water borne diseases) generated respect for TWS among major stakeholders. TWS had various experiences of practical implementation in different application areas across the world (Exhibit 4).

Exhibit 4 Implementation Examples of TWS Solutions

Emergency Water Supply / Disaster Response	
Mexico	Hurricane *Alex* generated some heavy rain falls on the 5th July 2010 in Monterrey, the third-biggest city in Mexico. The region of Monterrey with 3.8 million inhabitants was flooded. 230'000 inhabitants did not have access to clean drinking water. The distribution partner of Trunz, *Debisa*, provided its demo-unit for water treatment in the villages. The inhabitants stood in line in front of the Trunz Water Trailer.
Haiti	Six months after the earthquake in Haiti, seven units from Trunz Water Systems are producing drinking water for the poorest people living in rural areas.

Contd.

Pakistan	On 8th October 2005, there was an earthquake measuring 7.6 on the Richter scale in the region of Kashmir. A total of 50,000 were killed and another 70,000 injured in the 3 countries namely Pakistan, India and Afghanistan. The situation in Pakistan was worse than in other countries as this was the epicentre of the disaster. Swiss and international aid concentrated on Pakistan to deliver TWS 200 solutions.
Rural Villages/Islands	
Afghanistan	Water treatment from the River “Pjandsch” at the border Afghanistan / Tajikistan. The river was dirty and people suffered heavily from using the contaminated water.
Ethiopia	Drinking water for the local community of Semera thanks to the Trunz Brackish Box 002.
Brazil	Testing plant realised by a cooperation of the Grupo ECOGEO, REPIC and Trunz Water Systems AG.
Kenya	As part of the election campaign of Mr. Peter Shehe for Member of Parliament representing the province of Ganze in Kenya, our official dealer for Kenya, Tomash International Ltd., organized a road trip with Peter Shehe. Peter Shehe’s goal was to show the inhabitants of remote villages how to purify contaminated water with the mobile Trunz Water System (TWS 200). Difficult access to the villages was one of the challenges they had to manage on the trip. Thanks to the solar power supply and the ruggedness of the purification unit, they managed to produce clean drinking water out of any surface water source they found during the trip. Within the short time of two weeks they visited a series of villages and offered water to hundreds of persons. Numerous villagers joined the demonstration of the Trunz Water Systems unit and tasted the fresh water. In order to provide local inhabitants access to clean drinking water, a first Water-Shop has been opened.
Madagascar	Safe drinking water for the population of Beheloke through a WWF project.
Malaysia	Drinking water solution for police and army posts on Malaysian islands.
Mauritania	A solar powered desalination plant has been installed directly at the harbour.
Nigeria	Nigeria provides clean drinking water to rural communities through the use of sustainable technologies such as TWS in order to meet its Millennium Development Goals.
Panama	Water treatment units provide the Police Boarder Control with clean drinking water. Challenging transportation of water purifications units to remote villages in Panama. Clean drinking water for 3 villages with 250 inhabitants.
Philippines	The *Rotary Club Iloilo City* with the financial contribution by the *Rotary Club of Sae Goyang* (South Korea) donated to the Barangay (district) Ban-Ag in the Municipality of Santa Barbara a solar-powered water treatment unit. The unit supplies the families in the district and people from neighbouring Barangays with safe drinking water at affordable prices.
Venezuela	The program “Sembrando Luz” started in order to provide drinking water and solar energy to the indigenous people in remote areas of Venezuela. The project targets a successful implementation of clean technology which works under harsh conditions and provides a long-term solution (*more details in the appendix*).
Schools / Universities	
Madagascar	From a pilot project in St. Augustine to a permanent water station.
Pakistan	Solar powered water desalination TSS 100 for the University Quetta in Pakistan. Household water system in a housing complex development in Karachi.

THE DISTRIBUTION SYSTEM OF TWS

For the distribution and promotion of its solutions, TWS followed the strategy of building up a worldwide network of local dealers, agents and own subsidiaries (Exhibits 5 and 6). TWS usually looked for well established companies with an excellent network and experience in the field of water treatment and solar power. A long-term relationship being the target, TWS carefully evaluated any application with regards to its criteria and expectations before entering into a co-operation.TWS had different concepts on how to start-up and succeed in the challenging field of decentralized water supply. TWS intended not only to find independent local distribution partners worldwide but also to support their activities with its know-how. TWS wanted its partners to promote itssolutions in a serious and competent way which essentially required a detailed understanding of its equipment. Therefore, TWS provided special one-week trainings/workshops where the staff of its dealers and agents was trained. This training remained compulsory for all distribution partners. Three different possibilities existed to be a distribution partner of TWS namely independent agent, dealer and exclusive distributor.

Exhibits 5 TWS Worldwide Distribution Partner

Exhibits 6 TWS Network

Independent Agents *Independent agents* were expected by TWS to have very good connections to opinion leaders in a specific country or specific application area. The intention of the independent agent should not be to develop their own business but to connect their contacts to TWS and to develop long-term partnerships or act as an advisor between a potential client and TWS until a deal was concluded. Some of the benefits of an independent agent model for TWS included: no financial risk, low financial investment (pay only for expenses, e.g. the travel arrangements for the 1 week training in Switzerland or other business trips to visit contacts), compensation based on provision/commission and autonomy to decide how much time/efforts to invest into an agent and its network.

Dealers Initially new *dealers* represented TWS only to a maximum of 3 countries. Dealers were required to do business in the water treatment or power generation industry in their home country or wanted to start-up a new company. The intention of the dealer should be to include TWS products in its product portfolio. Dealers should have their own team for marketing and sales, installation and maintenance of the water treatment units and alternatively they could also work with a field-experienced local company. In short, dealers acted as the local contact person in the country for all questions in connection with TWS and also managed all potential clients in a country. Dealers in turn enjoyed the benefits of running their own business and receiving support from TWS. In addition TWS had special dealer prices and discounts. TWS also issued promotional material (such as brochures and flyers, information sheets, etc.) free of charge. TWS expected the dealer to have a company in each country in which it would like to represent TWS.

Pricing and Investment Costs

TWS solutions were competitive in the long-run when compared to bottled water or diesel powered water treatment systems. Especially when including the health costs occurring from water borne diseases or anticipating higher diesel/petrol costs in the future. By employing reliable, high quality components system, TWS solutions were ensured to work under harsh conditions with renewable energy sources providing almost zero operational costs. However, given that the TWS solutions suited primarily for long-term investments, the initial financing requirements were a major barrier for many potential users in developing countries. The investment costs for the TWS solutions were clearly high when compared to locally manufactured systems in the short run. There were two main reasons for this: First, the renewable energy sources required a relatively high initial investment but the operational costs were then close to zero. Second, to ensure a long life span and a good reliability under harsh conditions, only top quality components were used for the TWS solutions. According to TWS's experience, the initial investment was not a problem when the total life cycle costs were compared. However, the decision for the initial investment was not always easy given the high uncertainty in the geographic areas where the solutions made most sense which are normally locations in deep remote areas (Exhibit 7 and Exhibit 8).

Exhibit 7 Cost Comparison between TWS Solution and other Water Supply

Production Costs	Fresher Water	Brackish Water	Seawater
1L	0.001 US$	0.005 US$	0.008 US$
1'000 L	1 US$	5 US$	8 US$
Purchase	Muncipal Water (CH)	Water Kiosk (India)	Bottled Water
1 L	0.002 US$	0.005 US$	1 US$
1'000 L	2 US$	5 US$	1'000 US$

Exhibit 8 Operational Costs (Energy Supply)

Production Costs (5 Year)	Quantitative 1 kW	Telecom Tower 2 kW	Seawater	Seawater Desalination 10 kW
Solar (7.5 US$/Wp)	8'640 US$/Y	14'400 US$/Y	32'400 US$/Y	
Diesel (2.5 US$/1)	7'300 US$/Y	14'600 US$/Y		73'000 US$/Y

Way Forward

After the initial success in different countries the Chief Operating Officer (COO) of TWS, Lars Willi, along with the entire top management team of TWS was thinking about innovative business models that would break the existing market entry barriers for TWS thereby helping to channel the solutions of TWS and reach several other untapped markets in future—especially India was still a white spot on the map. Although Lars and his team were proud about their company's present position in the global market, he felt still a long way for TWS's solutions to reach and be recognized in an important market like India. He knew that if he wanted to enter India successfully with more than a few single business cases he had come up with innovative business models.

Appendix TWS specific information)

(1) Drinking Water Costs in a Water Shop Concept (TWS Example)

Below calculation was based on an estimated operation time of 12 hours per day which was equivalent to production of 12000 litres/day. The Trunz Water Unit was connected to the municipal water and power network. Storage tank, piping and taps were provided locally and were not included in the calculation.

Investment costs	EUR 10,000.00
Annual amortisation (10 years)	EUR 1,000.00
Interest rate 5 %	EUR 250.00
Annual maintenance costs	EUR 200.00
Total costs per year	**EUR 1,450.00**
Total water production per year	360 x 12,000 litres = 4,320,000 litres
Costs for 1 litre	**EUR 0.00033**
1 litre of bottled water in market	EUR 0.30
Costs for 1 m^3	**EUR 0.33**

→ 1 litre of bottled water was equivalent to 1000 litres of clean drinking water provided by Trunz Water Systems.

→ **A promising business model**

- A unique chance for local people who act as entrepreneurs
- Establish a successful small business or even a chain of water shops
- Possibility for finance support from banks, leasing companies
- Profitability secured—even for very low water prices
- Possible locations for water shops: basement of apartment buildings, shopping malls, shopping centres, large food stores, tourist spots etc.
- In remote villages as central water station

(2) Existing Projects of TWS in India

A few projects were already successfully implemented in India by partnering with government, private sector and NGOs.

Punjab: CSR Project A CSR Project put in as first demonstration pilot project in Hoshiarpur with ultrafiltration unit running uninterrupted on solar power generated excellent results. Replication was planned in multiple villages for Water and Power with Punjab Government.

Uttar Pradesh: Partnering with a Private Company Two machines were being deployed in Unnao district of UP. Water Shop concept being deployed in partnership with Eureka Forbes and World Vision. Ultrafiltration, reverse osmosis and fluoride capturing systems technologies were employed and the project was funded by Elea Foundation. Project was planned to be run in a commercially sustainable manner to ensure sustainability and further replication through various investors. Cost of water was Rs. 10 for a 20 litre container to be delivered at home by the water service provider (local entrepreneur).

Gujarat: Teaming up with the Government Decentralized pilot community water model along with Gujarat government (WASSMO) was implemented in selected regions/villages that lacked access to Narmada Canal. Replication was planned in multiple villages for water and power once the above pilot was successfully implemented. Ultrafiltration and reverse osmosis technology as required from the water test results were employed. Model had the government buying the water on a long-term contract basis.

(3) TWS Experiences and Solution Concepts

TWS adopted variety of technical layouts for different projects implemented worldwide. The experiences of TWS while implementing different solutions across the world reinforced its vision and reassured the validity of the current strategy.

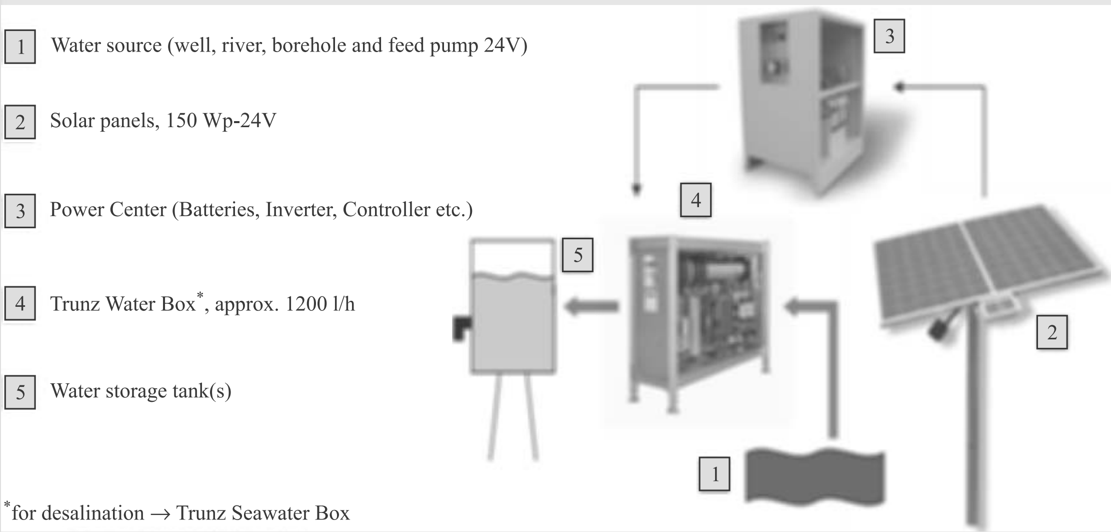
EXAMPLE **Electrification and drinking water to the natives of Venezuela**

The program "Sembrando Luz" started as part of the Venezuelan Presidents voting promise to provide drinking water and solar energy to the indigenous people in remote areas of Venezuela. After an evaluation by the Venezuelan authorities, Trunz Water Systems of Switzerland was appointed as supplier for water treatment and desalination equipment. Project target was to successfully implement clean technology which works under harsh conditions and provides a long-term sustainable solution. The project consisted of the following steps:

Step 1: Investigation of regional conditions and needs

Regional Investigation	
Access to location	Natural path, some areas boat access only
Inhabitants per village	Approx. 200 – 1000
Water sources	Well, river, lake, borehole, sea,
Common contamination in raw water	Organic contamination in some areas slightly brackish water or seawater
Distance from source water to unit	Approx. 20 meters (depth of wells up to 20 metres)
Water temperature	20 – 30 C
Air temperature	20 – 45 C
Site preparation work	Flat concrete platform (protection from flooding)
Sun radiation	*5* kWh/m^2*/day*
Amount of solar panels and batteries	Depending on required amount of water (operation hours of unit) and required amount of power for electronic devices. 8 x 150 Wp & 400 Ah batteries were used for purification units and 16 x 150 Wp & 600 Ah batteries were used for desalination units.

Step 2: Visit and inspection of every village involved in the program
The project co-ordination team visited every appointed village and verified together with the local authorities the specific on-site conditions such as number of inhabitants, water source, installation conditions, etc.
Step 3: Signing of contract by each inhabitant
Before the project could move forward, all inhabitants had to agree to the installation of the new equipment and infrastructure.
Step 4: Evaluation and purchase of equipment (centrally organized through project management).
Step 5: Training of a team of local operators
Trunz Water Systems was responsible for central training of technicians and operators. The first two days were spent in classes for theoretical know-how transfer. Following the theoretical training, all participants were educated on practical issues such as installation, maintenance, troubleshooting, etc.
Step 6: Education of children and parents
Education of local school children in order to increase awareness for water issues in the rural areas were also performed by TWS.
Step 7: Installation of the TrunzWater Systems and Solar Systems. Depending on the local situation, construction work was required to build a solar array structure, drill a borehole, install tanks etc.
Step 8: Service and maintenance program for the installed units.
Electrification and Drinking Water to the Natives of Venezuela: Concept Overview



Specific Project Challenges in Venezuela

Transport and Logistic	*The access to many of the sites was difficult and has incurred a lot of time.*
Timetable to install the units	*The installation of the units lasted much longer than it was planned. Delivery of 125 units caused many problems. Storage charge was a big issue because to install all the units it took about two years.*

Contd.

Service and maintenance	*First units were installed at the beginning of 2007 and last of them in the end of 2009. Service program for all the units started in 2010.*
Trained personal to service the units	*A team of qualified service personnel was to be maintained and frequently updated under direction of the producer.*

Notes and References

1 Study titled "*Evaluation of Existing Capacities in WATSAN Sector*" initiated by *Plan International* and supported by *Wash Institute* in 2009. Available at *http://www.washinstitute.org/pdf/EvaluationExisting.pdf*

2 ibid.

3 ibid.

4 Report titled "Access to Safe Water for the Base of the Pyramid—Lessons Learned from 15 Case Studies" by *Hystra* in collaboration with *BoP Innovation Center*, September 2011.Available at http://hystra.com/s/Access_to_Safe_Water_for_the_BoP_FULL_REPORT.pdf (accessed on 23 December 2013).

Case 8

The Internationalisation Strategy of Wipro in Europe - 2*

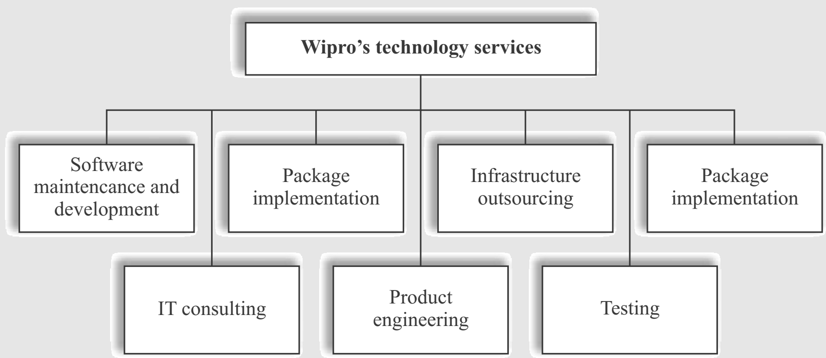
COMPANY HISTORY

Wipro Limited (Wipro) was founded in 1945 by Mohamed Hussain Hasham Premji as Western Indian Vegetable Products Limited. The company was initially engaged in the manufacturing of hydrogenated vegetable oil. Under the leadership of Premji's son and successor, Azim Premji, the company diversified into the areas of information technology (IT), IT services and products, R&D services, business process outsourcing (BPO), and consumer care and lighting products. It is headquartered in Bangalore, India and has operation offices in North America, Asia, and Europe, and is a pioneer of the offshore development centre (ODC) model that escalated the growth of Indian IT services globally (Vedpuriswar and Singh 2002; Wipro 2014a).

While Wipro has a wide range of divisions, e.g. infotech, consumer care and lighting, biomed, fluid power, and health care, the most important is technology services. Wipro provides comprehensive IT solutions and services to customers around the world, including systems integration, information systems and infrastructure outsourcing along with infrastructure management services, IT enabled services, analytics and information management, package implementation, software application development, maintenance and business application services, BPO, IT consulting, product engineering and R&D services.

Exhibit 1 shows the different technology divisions of Wipro Limited.

Exhibit 1 Organization Chart of Wipro's Technology Services



Source: Adapted from Hamm 2007

*This case has been written by Ritam Garg, Ph.D. and Professor Dr. Dirk Holtbrügge of School of Business and Economics, Friedrich-Alexander University of Erlangen-Nürnberg, Nürnberg, Germany. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation. Reprinted by permission of the authors.

Wipro was the first company to be assessed at PCMM Level 5, the highest level in People Capability Maturity Model, and SEI CMM Level 5, the Capability Maturity Model developed by the Software Engineering Institute in Pittsburgh/US. It also achieved 'A' level on the CDP's supplier climate performance leadership index (SCPLI). Additionally, Wipro has been recognized as one of the World's most ethical companies for third year running in 2014 by the Etisphere Institute, and has been selected as Dow Jones Sustainability Index (DJSI) World member for the 5th consecutive year as a global sector leader for the software and service industry. Wipro was awarded with the prestigious Golden Peacock award for 2014, for its innovative products and services, and received a corporate award for excellence in diversity and inclusion by Nasscom in 2012, and has been ranked 2nd in the Newsweek 2012 global 500 green companies. These certifications and awards point out the company's focus on total quality and help to integrate people, processes and technologies.

In the Indian market, Wipro is a leading IT solutions and services provider for the corporate segment offering system integration, network integration, software solutions and IT services. Its main local competitors are Infosys and Tata Consultancy Services (TCS), the IT division of the Tata conglomerate. Moreover, Wipro competes but also cooperates with foreign companies such as SAP, Gapgemini, Accenture, and Hewlett Packard.

In the Asia Pacific and Middle East markets, Wipro provides IT solutions and services for global corporations. Wipro also has a profitable presence in niche market segments of consumer products and lighting. Wipro has also developed industry specific solutions, like a marketing mix 'know your store' for retail, claims insurance, and a B2B solution for hi-tech products, and has a partnership and alliance with major players like Oracle, SAP, HP, Teradata, SAS and Microstrategy. The company employs over 150,000 employees worldwide and serves clients in over 175 cities across 6 continents. Wipro has established more than 70 global delivery centres and over 50 industry-specific 'centres of excellence' in over 54 countries across the globe, and has posted the revenues of $ 7.3 billion for the financial year 2013–2014 (Wipro 2014a). The company has been listed in the New York Stock Exchange since 2000 (NYSE:WIT). Wipro's software and technology division serves global leaders including Boeing, Ericsson, Cisco, IBM, Microsoft, and Sony. The company is expanding its area of operations across the globe. Major European clients are TUI, Skandia, Sanyo, Loyalty Gate, Thames Water, Prudential, Deutsche Bank, Transco, Thomas Cook, Nokia, and Nortel.

WIPRO GOING GLOBAL

The company has four geographic segments: Americas, Europe, APAC and OEM, and India and the Middle East. Table 1 provides an overview of the revenues and their geographical spread (financial year ended on March 31, in US$ million).

Table 1 Geographical spread of revenues between 2011 and 2014

	2011	*2012*	*2013*	*2014*
Americas	2,886	3,097	3,155	3,299
Europe	1,416	1,675	1,781	1,944
APAC and OEM	450	600	729	806
India and Middle East	469	549	553	569
	5,221	5,921	6,218	6,618

*Adapted from Wipro 2014a, 2013a

After having successfully established its business in the Indian market, Wipro started to expand its operations globally by following a strategy of inorganic growth, i.e. by acquiring several small and medium-sized companies in the US, in Europe as well as in Asia. E.g.,Wipro acquired US-based mPower Software Services Inc., a company in the payments processing space in 2005. Through this deal Wipro gained access to 30 distribution offices worldwide and more than 300 customers across the US, Europe, and Japan.

The US became an important market for Wipro with about 50 per cent of the total revenue coming from clients based in this country consistently in the last financial years. However, a growing dissent in the US against outsourcing led the company to adapt a global delivery model to reduce the dependence on this market and to concentrate on other regions such as Europe and Japan along with Latin America and the Middle East. In order to deliver its services to customers who were unwilling to outsource work to India, the company has further opened on site-centres in various countries. In particular, Wipro has expanded its operations in Canada, Germany, France, Eastern Europe, the Middle East and China. "We are starting to find traction in France and Germany – you can see the difference over the past four years. We see them as a major growth markets for us", said Wipro's Chairman and then CEO Azim Premji (cited in Pesola 2005). As a consequence, revenues from Europe and rest of the world show a constant increase throughout the last four financial years (Table 1).

Wipro has been following an inorganic growth strategy by acquiring companies andby building alliances and partnerships with industry leadersover the globe. "As businesses become global in scope, there will be a need for systems from companies acquired in mergers, acquisitions, and partnerships, to interoperate", said Manoj Nagpaul, then Regional Manager of Wipro Ltd. (cited in IMB 2007). Following this strategy, Wipro became a global player with customers all over the world.

Exhibit 2 Wipro's Global Footprint

Source: Wipro 2011

In the last few years, Wipro has extensively expanded its European operations by forming strategic alliances and acquiring especially small and medium sized companies which are market leaders in their particular niche industry. In Europe, Wipro has offices in Germany (Kempen, Munich, Frankfurt, Walldorf, and Kiel), France (Paris and Sophia Antopolis), Spain (Madrid), Sweden (Solna), Romania (Bucharest);

Austria (Lustenau), Italy (Milan), Switzerland (Zurich), the Netherlands (Hoofddorp), Finland (Rovaniemi, Oulu, Espoo, Kokkola, Seinäjoki, and Pori), and Portugal (Porto). Due to the company's inorganic growth and the strategy to deliver solutions to enable its clients do business better, Wipro has managed to establish a global visibility of its comprehensive portfolio of services and has set up a footprint in over 50 countries all over the world (Exhibit 2).

WIPRO'S INTERNATIONALIZATION STRATEGY IN EUROPE: STRATEGIC PARTNERSHIPS AND ACQUISITIONS

Within the past few years, Wipro has been investing in consulting, infrastructure outsourcing, and data security practices, among others. It acquired several relatively small European companies in strategic business areas as well as in strategic locations. Furthermore, Wipro entered into several strategic partnerships with European-based companies.

Strategic Partnerships

IONA Technologies, Ireland Wipro formed a strategic partnership with IONA, a world leader in high performance integration solutions for mission-critical IT environments in 2006. IONA was founded in Dublin in 1991 and has a strong history of providing distributed standard-based solutions to IT organizations with complex and heterogeneous computing environments and challenging integration problems. IONA is headquartered in Ireland with US headquarters in Waltham, Massachusetts, and subsidiaries in the United Kingdom, Germany, France, and Italy. Wipro will share IONA's Artix^{TM} Enterprise Service Bus (EBS) to deliver service-oriented architecture (SOA) deployments that are able to extend existing enterprise IT assets to new process automation applications (IONA 2006). IONA and Wipro engage in joint sales and marketing activities to identify opportunities where distributed SOA can be used effectively to help customers to meet their business objectives. While the partnership initially focused on customers in the financial services industry, both firms now intend to broaden the scope of their relationship across various vertical markets such as telecommunications, government, and healthcare. "We believe that IONA brings a unique approach to SOA that complements Wipro's capabilities to deliver quality solutions to our customers. Together, we make a compelling proposition to organizations that are investing in SOA to achieve true business agility at the lowest cost and in the fastest time possible", commented David Henderson, group head of Wipro Consulting (cited in IONA 2006).

Compuware, Germany Germany's Compuware was founded in 1973 and operates in the area of specified IT and application lifestyle solutions. Compuware is headquartered in Neu Isenburg, Germany, and has other four operations offices in Düsseldorf, Hamburg, Munich, and Berlin. Foreign subsidiaries are located in Austria, Poland, Switzerland, the Netherlands, Portugal, and the Czech Republic as well as in the overseas markets US, Australia, Japan, and Brazil (Compuware 2007). The partnership enables both companies to offer solutions to their clients that help them to continually improve service quality by leveraging ITL v3 and Six Sigma. "The issues of application quality and performance continue to be of great concern to IT organizations. Our partnership with Compuware, along with our Centre of Excellence, will allow us to help our clients to improve the reliability and availability of enterprise applications", said C.P. Gangadharaiah, Senior Vice President of Wipro (cited in Wipro 2006). For this purpose, the Compuware Centre of Excellence for Application Reliability Testing & Service Management was established in January 2005 at Wipro's Electronic City campus in Bangalore (see Compuware 2007). Moreover, Wipro established two design centres in Kiel and Dusseldorf, and another subsidiary in Munich, Germany, in 2005. "Germany is an extremely important market for the European expansion strategy of Wipro", explained P.R. Chandreskar, then CEO of Wipro Europe (cited in Wipro 2006).

ILOG, France and US Together with ILOG, Wipro Technologies forms a strategic alliance to deliver software solutions in its overseas markets. ILOG was founded in 1987 and is headquartered both in France and the US. It has subsidiaries in Australia, China, the United Kingdom, Germany, Japan, and Singapore. ILOG products include the market's leading business rule management systems (BRMS) as well as innovative optimization and visualization software components. ILOG and Wipro will share business and technical expertise to help customers to improve business decision making, to bring solutions faster to the market, to optimize business processes and to manage product life-cycle development. ILOG will provide Wipro with access to its technology and training services and both firms will work on integrating ILOG's products into Wipro's service offerings. "Close collaboration with ILOG helps Wipro's consultants apply ILOG's best practices for making solutions that allow both business and IT users to manage complex systems easily", said Vivek Bashin, Vice President e-Business of Wipro Technologies (cited in ILOG 2007). Within the framework of this strategic partnership, ILOG and Wipro are sharing their experiences and technical know-how.

While continuing to expand in Europe, Wipro has formed new partnerships in USA to strengthen its portfolio in one of its biggest markets. For example, in 2013, Wipro formed a strategic partnership with Axeda, a leading cloud-based service and software company for managing connected products and implementing innovative M2M applications, thereby significantly reducing the cost and complexity of connecting and remotely servicing the products of the world's leading companies. With this partnership Wipro has become the only systems integrator partner to have Axeda Platinum Partner status, and has received advanced technical training on the Axeda Machine Cloud. According to Dr. Anurag Srivastava, Chief Technology Officer, Wipro Ltd.,"Wipro's investment in Axeda is driven by growing demand and interest for M2M solutions across verticals from global customers and partners alike. We find that customers prefer to work with mature partners like Wipro and Axeda who have the capability and experience to plan, build and integrate M2M solutions that are able to demonstrate quick business results" (cited in PTI, 2013).

In the same year, Wipro got into a strategic partnership with Opera solutions, which has one of the private sector's largest groups of scientists specializing in machine learning. The company applies its machine learning science to the world's Big Data flows to extract predictive patterns, or signals. It offers a range of solutions, delivered as a service, that turn these signals into prescriptive "best actions" that significantly improve front-line productivity and bottom-line growth. Its solutions include its Consumer Signal Hub™ and related Signal Apps for marketers and SignalSensor™ which extracts threat and other sentiment from the world's flow of open source online data, as well as other solutions for financial services, capital markets, procurement professionals, and the healthcare industry (Wipro, 2013b). According to **K.R Sanjiv, Wipro's Senior Vice President and Global Head, Analytics and Information Management:** "This strategic partnership with Opera Solutions will help us further extend our leadership in the Big Data analytics space, as it combines Opera Solutions' machine learning expertise, pre-discovered predictive signals and algorithms with Wipro's proven domain and technology expertise combined with Global Delivery Model to create industry-specific Big Data analytics solutions. It also enables our customers to maximize the ROI of Big Data analytics implementation through faster adoption," (cited in Wipro, 2013b).

Acquisitions

NewLogic, Austria In 2006, Wipro Technologies made two milestone acquisitions in Europe. First, it acquired NewLogic Technologies AG, a System on Chip (SoC) company headquartered in Lustenau, Austria, for €47mn. NewLogic has subsidiaries and operation offices in France and Germany. Although Wipro had already served customers in Austria, this was the first acquisition in this country and hence the company's first Austrian subsidiary. According to Ramesh Emani, President Product Engineering Solutions, Wipro Technologies, "we consider this acquisition as an European acquisition that enables us to extend our presence in Europe" (cited in Brien 2005)."We are interested in all markets in continental Europe. We are already present in Northern Europe and believe that this acquisition will help us to strengthen our position in Germany in the area of design services“, saidEmani, “in order to be successful in Europe, a good local presence is needed.” While up to now, most services are delivered from India, in the future Wipro aims to position itself as a global company and to enhance its position in global delivery services.

Through the acquisition of NewLogic, Wipro has also acquired a strong domain expertise in semiconductor IP cores and complete SoC solutions with digital and analog mixed-signal and RF design services. Furthermore, the company acquired access to 25 patent filings and 120 specialists serving over 20 customers in the product engineering space, such as Philips, Agere, and Infineon. According to an internal report, NewLogic's capabilities complement Wipro's own portfolio of IP cores and patents in wireless and wireline technologies areas, thus positioning the combined entity as the global leader in this area (Wipro 2007c). By this means, Wipro gained a foothold in Europe and increased its domain strength and skills (Wipro 2006).

Enabler, Portugal In the same year, Wipro also acquired Portugal's Retail Bix BV (Enabler). Enabler provides comprehensive IT solutions and retail consulting services for global retailers. It has a strong customer base that includes more than a dozen Oracle retail implementations for a diverse set of retail formats, e.g. food and fashion. As part of this acquisition, the company aims to provide a wide range of services including Oracle retail implementation, digital supply chain, business optimization and integration. Through this acquisition, Wipro is able to expand its domain expertise both in the retail and technology sector. Moreover, the company assures its presence in different geographical locations, as Enabler has offices in Portugal, the United Kingdom, Germany, Italy, Spain, France, and Brazil (Wipro 2007a; Enabler 2007). Enabler has over 300 employees serving customers in these countries and in the Middle East.

Sudip Banerjee, President Enterprise Solutions of Wipro Technologies, considers the retail industry as one of the largest and fastest-growing sectors in the enterprise solutions market for Wipro. Therefore, Enabler's track record in retail domain consulting and package implementation skills is supposed to strengthen Wipro's position as a preferred solutions provider to large retailers around the globe. Bhanu Murthy, Senior Vice President Retail of Wipro Technologies, added: “We believe Enabler will enhance Wipro's deep retail knowledge and package implementation expertise globally and brings strong relationships with some of Europe's best-known retailers and wholesalers.” Sudip Nandy, Chief Strategy Officer of Wipro Technologies, explained: “This acquisition is in keeping with Wipro's articulated strategy of enhancing our domain skills. In addition, this transaction expands our geographic footprint and adds two new delivery centres in strategic locations such as Portugal and Brazil” (Wipro 2006; Wipro 2007c).

Saraware, Finland The strong presence in Northern Europe partly results from the acquisition of Saraware Oy, Finland, in 2006. Founded in 1985, Saraware provides design and engineering services to telecom companies. The companyhas offices in six cities in Finland: Rovaniemi, Kokkola, Seinjäjoki, Pori, Tampere, and Helsinki. This acquisition adds competencies in the areas of radio networks and secure mobile platforms to Wipro's expert domain. Saraware has nearly 200 specialists in these domains. Through this acquisition, the company is also able to expand its presence in the engineering services sector in Finland and in Northern Europe (Wipro 2006; Saraware 2007; Wipro 2007c).

According to Ramesh Emani, President Product Engineering Services of Wipro Ltd., “this acquisition gives us much needed local presence in Finland and puts us in the heart of the Nordic region. We need near-shore development centres, as we take up more complex and end-to-end engagements with our customers. In addition, this acquisition brings niche skills in the development of Base Station Controllers and mobile communication platforms. Combined with Wipro's existing competencies, it helps us to penetrate into high growth segments like secure communication and gives us the capability to handle complete outsourcing deals in the evolving GSM, 3G and Tetra markets” (cited in Wipro 2007c). According to Risto Niva, CEO of Saraware, this is a win-win-partnership where Wipro adds scale and global reach to Saraware's domain competencies and strong Nordic presence. Sudip Nandy, Chief Strategy Officer at Wipro Technologies, added: "Over the past few months through acquisitions in Europe we have added local workforce in Portugal, Austria, France, and Germany. Saraware gives us a local workforce in the Nordics through a presence in Finland. This is in line with our drive to transform ourselves into a truly global company with a global workforce" (cited in Wipro 2007c).

Hydrauto, Sweden In November 2006, Wipro acquired Hydrauto Group AB (Hydrauto), Sweden. Hydrauto develops, manufactures, and markets custom-made hydraulic cylinders solutions for mobile applications such as mobile cranes, excavators, dumpers and trucks. The company owns various production facilities in Sweden and has approximately 600 employees. Since 1994, the Hydrauto Group has worked in partnerships with the Japanese company KYB, one of the world's largest cylinder manufacturers. The co-operation involves design, manufacturing and quality control (cited in Hydrauto 2007). Anurag Behar, CEO of Wipro Infrastructure Engineering Ltd. explained: "Through this acquisition, Wipro obtains a unique foothold in Asia and Europe. We now have access to a customer base that has been developed over several decades as well as a deep and complementing technical expertise. This merger serves to greatly boost our common competitive edge" (Hydrauto 2007). Olov Larsson, CEO of Hydrauto commented on the deal, "the Hydrauto team looks forward to becoming a part of the Wipro family. We think that Wipro is a perfect fit, in being leaders in Asia and having an established presence in the Asia-Pacific region" (cited in N.N. 2006).

While Wipro actively acquired small to medium sized firms in Europe in the late 2000s, over the recent years Wipro has been seeking to expand its operations in countries like Canada and Australia to increase its presence in all the four corners of the world. For example, in 2012, Wipro acquired the Australian company Promax Applications Group (PAG), a world-leading specialist in trade promotion planning, management, and optimization solutions, for approximately AUD 35 million. With offices in New Zealand, Japan, Central Europe, United Kingdom and North America, PAG boasts an impressive stable of global consumer goods companies. This acquisition marks Wipro's foray into analytics and information management services. According to K.R. Sanjiv, Senior Vice President and Global Head, Analytics and Information Management, Wipro, "Analytics is a key growth driver of Wipro's growth strategy. The acquisition of Promax Applications Group will strengthen Wipro's positioning and capability in management, analytics & optimization of trade promotions, and further extends our leadership in analytics and information management services. Combining PAG's deep industry expertise with Wipro's proven experience in delivering end-to-end large business solutions to global clients, will enable our clients to maximize the ROI of Trade Promotion spends" (cited in Wipro, 2012).

More recently, in 2014, Wipro acquired Canada-based Atco I-Tek for $ 195 million to boost its revenues from natural gas and utilities business and expand its footprint in North America (Phadnis, 2014). According to Anand Padmanabhan, chief executive — energy, natural resources and utilities in Wipro, "The transformational deal has significant business outcomes and it's one of the largest deals for the company. We have traditionally had a strong position in the utilities space in Europe and this engagement provides momentum to our business in Canada and Australia. The alliance with Atco enhances our capability to create, nurture and tap local talent to power our growth journey in Canada" (cited in Phadnis, 2014). This is Wipro's second largest acquisition after the acquisition of the US-based IT infrastructure management company Infocrossing for $ 600 million in 2007. In addition, Wipro has also acquired Science Applications International Corporation for approximately $ 150 million.

Main Motives for Internationalization

Wipro was one of the first Indian ITcompanies to establish a foothold in Western Europe in the early 2000s. After having concentrated on the United Kingdom first, the new targets for expansion are Germany, France, and the Nordic countries. In March 2006, Wipro's Chairman and then CEO Azim Premji anticipated that Wipro would have to make another 8 to 10 acquisitions in the following 12 months. "As we made these acquisitions, we gained a higher degree of faith in ourselves […]. You do one, and you succeed with the integration. Then it feeds on itself. It gives us the confidence to do many more" (cited in Hamm 2007).

Having taken into consideration the need to be close to customers, Wipro has acquired companies in strategic business areas in important locations all over Europe and has entered into various strategic partnerships with IT solutions and services providers. Furthermore, the company set up a 250-seat call-centre in Bucharest, Romania, and established a development centre in Romania, too, to be present in and have a better access to the Eastern European market (Kurup 2006). Wipro is now planning to increase the number of employees by 25 percent in the next 14 months at its Bucharest and Timisoara support centres to serve clients in the Eastern European market. T.K. Kurien, Wipro's CEO said in a statement "As Eastern Europe is poised to become a strategic delivery location for us, we are committed to investing in the region. We are building strong domain knowledge in key growth verticals and hiring local talent with programme management capabilities. Our customers in Romania span across retail and consumer goods, healthcare, manufacturing and telecom industries," (cited in IANS, 2014).

Chandrasekar Sekar, who was responsible for the US and European markets, said in a statement: "I think US remains fairly strong and I am hoping Europe will get even stronger. In Europe, we still see some fair amount of buoyancy there and I am hoping that in Europe—both in UK and Continental Europe—we will continue to get business which would keep those rates fairly high. Well, for the staff, as they speak different languages in some of these countries, we have a bit of challenge there, but otherwise similarities are fairly strong […]. In the European market we have insurance, the financial services business, and utility segment particularly strong and banking much stronger than in the US. As far as Continental Europe is concerned, I could say there is a little bit of difference in the buying pattern, in the sense that decision stands to somewhat longer in term, decisions take a little longer to take as well as tend to be a somewhat more consensus driven" (cited in Wipro 2007b).

In order to satisfy the needs of its European customers, Wipro has modified its lean staffing model and placed more employees in strategic locations to be near to its potential customers. In the past, Wipro served many customers by re-locating experts from India for short times. Now it is recruiting local talent and clustering people in its key markets, especially in Europe (Hamm 2007). Wipro's current CEO T.K. Kurien, said in a recent statement that "there is a huge fight for market share" (cited in Wipro 2014d), and this strategy has helped Wipro to not only gain the trust of its clients but also the potential employees, to ward off the negative country of origin effect and invariably help the company to win huge market share in the prospective markets.

To meet the global goals of the company, Wipro has been focussing on the acquisition of small niche players with a highly specialized workforce instead of following a pan-European acquisition strategy in the pursuit of economies of scales. Particularly Europe is perceived to be a diverse market where it is easier to take use of local companies with a strong market presence. Moreover, acquisitionsof and strategic partnerships with well-known European companies would help Wipro to be recognized as a reliable business partner. "To win confidence by major customers we need local employees who speak the local language and know the local culture" said Ten Nijenhuis, then Senior Vice President for Europe (cited in Thomas 2007).

In keeping with company's key focus for growth in winning large deals, Wipro has also sanctioned an estimated $ 2 billion for global buy-outs and is eying to make more acquisitions in the near future in major markets like North America and Europe. Wipro is also planning to grow organically in Germany, one of the under-penetrated IT outsourcing regions in Europe. Suresh Senapaty, CFO and board member of the company was quoted as saying; "From geography standpoint, Germany is an area where though we have done quite decent, the growth there can be much. Therefore, we need to have some good orchestration in terms of having a stronger team and supporting that with inorganic growth avenues" (cited in Mishra, 2013).

Germany which houses many global automotive and engineering majors is one of the most promising IT outsourcing markets in the world. Within the European region, Germany, France and the UK put together account for around 70-80% of the overall spends in the region on information technology.This sentiment is further echoed by Jatin Dalal, CFO, IT business, Wipro: "We are currently involved in 8-10 discussions." According to Sangita Singh, CEO healthcare and life sciences, "Wipro has shortlisted a few firms valued between $ 50 million and $200 million" (cited in Toms, 2014).

Wipro is also planning to expand into other European regions, for example, Benelux, where the company has made strategic investments over the last 5 years. The company has significantly built its local presence with offices in Hoofddorp, Eindhoven and The Hague. According to **Ulrich Meister, Senior Vice President, Continental Europe and Africa,** "Benelux is a high focus area for our business within Continental Europe. We have aggressive plans to drive our localization strategy led by innovation to win new business and strengthen relationships with existing customers" (cited in Wipro, 2014b). Similarly, France has also emerged as a focus region for the company with Wipro planning to further expand its presence in the region. And as per **Ulrich Meister, Senior Vice President, Continental Europe and Africa,** "France has always been a focus area for Wipro and we have aggressive plans to drive our localization strategy and establish a strong foothold within the French market. This will be supported by our global customer engagement experience to accelerate growth in the region" (cited in Wipro 2014c). Altogether, Europe presently accounts for close to 29% of Wipro's overall revenues in the IT services business. In the financial year ended March 2014, Wipro reported growth of 8.8% in constant currency in Europe (Wipro, 2014a).

Wipro continues to globalize as well as to move up the value chain in high-end consulting. It has substantially invested in acquiring and procuring local market resources in order to succeed internationally. Additionally, a significant amount of delivery centres offering industry-specific and client-specific products and services provides a good mix of domestic and foreign operations that is required for the company's further international expansion.

Notes and References

1. Axeda (2013): www.axeda.com
2. Brien, J. (2005): Wipro schnappt sich österreichischen Chipdesigner NewLogic, pressetext Austria, 19.12.2005.
3. Compuware (2007): www.compuware.com
4. IANS (2014): Wipro to ramp up headcount in Romania, Business Standard online, 28th October, 2014.
5. IBM (2007): Background: India's most valuable IT Company, http://www-306.ibm.com/software/success/css-db.nsf/industryL2VW?OpenView&Count=30&RestrictToCategory=default_ComputerServices&cty=en_us.
6. IONA (2006): Iona and Wipro Technologies Partner for SOA. Press 11.05.2006, www.iona.com.
7. Enabler (2007): www.enabler.com
8. Hamm, S. (2007): Bangalore Tiger. How Indian Tech Start-up Wipro is rewriting the rules of global competition, New-Delhi: Tata McGraw-Hill
9. Hydrauto (2007): www.hydrauto.se.
10. Kurup, N. (2006): Wipro set to invest $250 in Romania, http://www.rediff.com/money/2006/jan/20bs.htm, 01-20-06.
11. Mishra, B.R. (2013): Wipro considering acquisition in Germany to expand footprint, Business Standard online, 24th October, 2013. N.N. (2006): Wipro Infrastructure Engineering acquires Sweden-based Hydrauto Group AB, http://www.finanznachrichten.de/nachrichten-2006-09/artikel-7057413.asp, 09-28-07
12. N.N. (2007): India's Wipro targets German acquisition worth 60-70 mn euro, http://www.forbes.com/afxnews-limited/feeds/afx/2007/07/20/afx3934949.html, 07-20-07.
13. Pesola, M. (2005): Companies International: Wipro ready to expand again, Financial Times London, 06-06-05.
14. Phadnis, S. (2014): Wipro buys Canadian firm Atco I-Tek for $195 million. TNN online, 18th July, 2014.
15. PTI (2013): Wipro invests $5 million in M2M service provider Axeda. PTI online, 3rd June, 2013
16. Saraware (2007): www.saraware.com

17. Thomas, E. (2007): Wipro plans major German acquisition, cbr-online, 18th June 2007.
18. Toms, M.P. (2014): Wipro sitting on $2-billion war chest, eyes more acquisitions, HT online, 27th July, 214.
19. Vedpursivar, A.V. and Singh, K.R. (2002): Enterprise Risk Management at Wipro, Enterprise risk Management – Concept and Cases, Vol. III, Hyderabad: ICFAI Books.
20. Wipro (2006): Annual report 2005-06
21. Wipro (2007a): Annual report 2006-07
22. Wipro (2007b): Investors/Analysts Conference Call for the quarter and the year ended in March 31, 2007, 04-20-27
23. Wipro (2007c): www.wipro.com/pressroom
24. Wipro (2011): Transforming your global operating model. Wipro Technologies, Bangalore, India.
25. Wipro (2012): www.wipro.com/newsroom
26. Wipro (2013a): Annual report 2012-13
27. Wipro (2013 b): www.wirpo.com/newsroom
28. Wipro (2014a): Annual report 2013-14
29. Wipro (2014b): www.wipro.com/newsroom
30. Wipro (2014c): www.wipro.com/newsroom
31. Wipro (2014d): www.wipro.com/newsroom

Name Index

Organisation Index

Subject Index