SELF GYAN

MMPC 12 IGNOU

STRATEGIC MANAGEMENT

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ये book केवल ignou एग्जाम की तैयारी कराने के लिए जिससे काम से काम समय में जल्दी आप तैयारी कर सके और अच्छे मार्क्स ला सकते इसमें सबसे पहले सबसे इम्पोर्टेन्ट question उसके बाद काम इम्पोर्टेन्ट question को वरीयता से लिया गया है आपको बुक को सुरु से अच्छे से पढ़ना है। self gyan

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MMPC 12 STRATEGIC MANAGEMENT
FIRST PRIORITY MOST IMPORTANT QUESTIONS

Q1- Define strategy and understand its meaning, level of strategy, nature, importance and Essence of Strategy? (v v v v v imp)

Ans – MEANING' STRATEGY

In management, the concept of strategy is taken in more broader terms. According to Glueck, **"Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process."**

This definition of strategy lays stress on the following:

a) Unified comprehensive and integrated plan.

b) Strategic advantage related to challenges of environment.

c) Proper implementation ensuring achievement of basic objectives.

Another definition of strategy is given below which also relates strategy to its environment." Strategy is organization's pattern of response to its environment over a period of time to achieve its goals and mission."

This definition lays stress on the following:

a) It is organization's pattern of response to its environment.

b) The objective is to achieve its goals and mission.

However, various experts do not agree about the precise scope of strategy. Lack of consensus has lead to two broad categories of definitions: strategy as action inclusive of objective setting and strategy as action exclusive of objective setting.

Strategy as Action, Inclusive of Objective Setting

In 1960s, Chandler made an attempt to define strategy as "the determination of basic long term goals and objective of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals."

This definition provides for three types of actions involved in strategy:

i) Determination of long term goals and objectives.

ii) Adoption of courses of action.

iii) Allocation of resources.

Strategy as Action Exclusive of Objective Setting

This is another view in which strategy has been defined. It states that strategy is a way in which the firm, reacting to its environment, deploys its principal resources and marshalls its efforts in pursuit of its purpose. Michael Porter has defined strategy as **"Creation of a unique and valued position involving a different set of activities. The company that is strategically positioned performs different activities from rivals or performs similar activities in different ways."**

NATURE OF STRATEGY

Based on the above definitions, we can understand the nature of strategy. A few aspects regarding nature of strategy are as follows:

- Strategy is a major course of action through which an organization relates itself to its environment particularly the external factors to facilitate all actions involved in meeting the objectives of the organization.
- Strategy is the blend of internal and external factors. To meet the opportunities and threats provided by the external factors, internal factors are matched with them.
- Strategy is the combination of actions aimed to meet a particular condition, to solve certain problems or to achieve a desirable end. The actions are different for different situations.
- Due to its dependence on environmental variables, strategy may involve a contradictory action. An organization may take contradictory actions either simultaneously or with a gap of time. For example, a firm is engaged in closing down of some of its business and at the same time expanding some.
- Strategy is future oriented. Strategic actions are required for new situations which have not arisen before in the past.
- Strategy requires some systems and norms for its efficient adoption in any organization.
- Strategy provides overall framework for guiding enterprise thinking and action.

The purpose of strategy is to determine and communicate a picture of enterprise through a system of major objectives and policies. Strategy is concerned with a unified direction and efficient allocation of an organization's resources. A well made strategy guides managerial action and thought. It provides an integrated approach for the organization and aids in meeting the challenges posed by environment.

ESSENCE OF STRATEGY

Strategy, according to a survey conducted in 1974, includes the determination and evaluation of alternative paths to an already established mission or objective and eventually, choice of the alternative to be adopted. Strategy is characterized by four important aspects.

- Long term objectives
- Competitive Advantage
- Vector
- Synergy

Long Term Objectives

Strategy is formulated keeping in mind the long term objectives of the organization. It is so because it emphasizes on long term growth and development. Strategy is future oriented and therefore concerned with the objectives which have a long term perspective.

The objectives give directions for implementing a strategy.

Competitive Advantage

Whenever strategy is formulated, managers have to keep in mind tlie competitors of the organization. The environment has to be continuously monitored for forming a strategy. Strategy has to be made in a sense that the firm may have competitive advantage. It makes tlie organization competent enough to meet the external threats and profit from the environmental opportunities. The changes that take place over a period of time in the environment have made the use of strategy more beneficial. While making plans, competitors may be ignored but in making strategy, competitors are given due importance.

Vector

Strategy involves adoption of the course of action and allocation of resource for meeting the long term objectives. From among tlie various courses of action available, the, managers have to choose tlie one which utilizes the resources of the organization in the best possible manner and helps in tlie achievement of the organizational objectives. A series of decisions are taken and they are in the same direction.

Strategy provides direction to the whole organization. When the objective has been set, they bring about clarity to the whole organization. They provide clear direction to persons in the organization who are responsible for implementing the various courses of action. Most people perform better if they know clearly what they are expected to do and where the organization is going.

Synergy

Once we take a series of decisions to accomplish the objectives in the same direction, there will be synergy. Strategies boost the prospects by providing synergy.

Let us now take an example to illustrate the essence of strategy in a firm dealing with chemicals. The scope of the firm relating tlie product is basic chemicals and pharmaceuticals. The **objectives** of the firm can be:

- **Return on Investment:** Threshold 20%, goal 35%.
- **Sales growth rate:** Threshold 10%, goal 15%.

  The strategy which comprises of the **competitiveadvantage, growth vector** and **synergy** can be:

- **Competitive advantage:** Patent protection and well developed R & D division.
- **Growth vector:** Product development and concentric diversification.
- **Synergy:** Use of the firm's research capabilities and production technology.

In this manner each firm can individually have its own strategy.

LEVELS OF STRATEGY

It is believed that strategic decision making is the responsibility oftop management. However, it is considered useful to distinguish between the levels of operation ofthe strategy. Strategy operates at different levels vis-a-vis:

- Corporate Level
- Business Level
- Functional Level

There are basically two categories of companies- one, which have different businesses organized as different directions or product groups known as profit centres or strategic business units (SBUs) and other, wliicli consists of companies wliicli are single product companies. The example of first category can be that of Reliance Industries Limited which is a highly integrated company producing textiles, yarn, and avariety of petro chemical products and the example of the second category could be Asliok Leyland Limited wliicli is engaged in the manufacturing and selling of heavy commercial vehicles. The SBU concept was introduced by General Electric Company (GEC) of USA to manage product business. The fundamental concept in the SBU is tlie identification of dicrete independent product/ market segments served by the organization. Because of the different environments served by each product, a SBU is created for each independent product/ segment. Eacli and every SBU is different from another SBU due to the distinct business areas (DBAs) it is serving. Each SBU has a clearly defined product/market segment and strategy. It develops its strategy according to its own capabilities and needs with overall organizations capabilities and needs. Each SBU allocates resources according to its individual requirements for the achievement of organizational objectives. As against the multi product organizations, the single product organizations have single Strategic Business Unit. In these organizations, corporate level strategy serves tlie whole business. The strategy is implanted at tlie next lower level by functional strategies. In multiple product company, a strategy is formulated for each SBU (known as business level strategy) and such strategies lie between corporate and functional level strategies.

The three levels are explained as follows:

Corporate Level Strategy

At the corporate level, strategies are formulated according to organization wise polices. Tliese are value oriented, conceptual and less concrete than decisions at tlie other two levels. Tliese are cliaracterized by greater risk, cost and profit potential as well as flexibility. Mostly, corporate level strategies are futuristic, innovative and pervasive in nature. They occupy the highest level of strategic decision making and cover tlie actions dealing with the objectives of the organization. Such decisions are made by top management of the firm. The example of such strategies include acquisition decisions, diversification, structural redesigning etc. The board of Directors and the Chief Executive Officer are the primary groups involved in this level of strategy making. In small and family owned businesses, the entrepreneur is both the general manager and chief strategic manager.

Business Level Strategy

The strategies formulated by each SBU to make best use of its resources given the environment it faces, come under the gamut of business level strategies. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between them for achievement of corporate level objectives. These strategies operate within the overall organizational strategies i.e. within the broad constraints and polices and long term objectives set by the corporate strategy. The SBU managers are involved in this level of strategy. The strategies are related with a unit within the organization. The SBU operates within the defined scope of operations by the corporate level strategy and is limited by the assignment of resources by the corporate level. However, corporate strategy is not the sum total of business strategies of the organization. Business strategy relates with the "how" and the corporate strategy relates with the "what". Business strategy defines the choice of product or service and market of individual business within the firm. The corporate strategy has impact on business strategy.

Functional Level Strategy

This strategy relates to a single functional operation and the activities involved therein. This level is at the operating end of the organization. The decisions at this level within the organization are described as tactical. The strategies are concerned with how different functions of the enterprise like marketing, finance, manufacturing etc. contribute to the strategy of other levels. Functional strategy deals with a relatively restricted plan providing objectives for specific function, allocation of resources among different operations within the functional area and coordination between them for achievement of SBU and corporate level objectives.

Sometimes a fourth level of strategy also exists. This level is known as the operating level. It comes below the functional level strategy and involves actions relating to various sub functions of the major function. For example, the functional level strategy of marketing function is divided into operating levels such as marketing research, sales promotion etc.

IMPORTANCE OF STRATEGY

With the increase in the pressure ofexternal threats, companies have to make clear strategies and implement them effectively so as to survive. There have been companies like Martin Burn, Jessops etc. that have completely become extinct and some companies which were not existing before they became the market leaders like Reliance, Infosys, Technologies etc. The basic factor responsible for differentiation has not been governmental policies, infrastructure or labour relations but the type of strategic thinking that different companies have shown in conducting the business.

Strategy provides various benefits to its users:

- Strategy helps an organization to take decisions on long range forecasts.
- It allows the firm to deal with a new trend and meet competition in an effective manner.
- With the help of strategy, the management becomes flexible to meet unanticipated changes.
- Efficient strategy formation and implementation result into financial benefits to the organization in the form of increased profits.
- Strategy provides focus in terms of organizational objectives and thus provides clarity of direction for achieving the objectives.
- Organizational effectiveness is ensured with effective implementation of the strategy.
- Strategy contributes towards organizational effectiveness by providing satisfaction to the personnel.
- It gets managers into the habit of thinking and thus makes them, proactive and more conscious of their environment.
- It provides motivation to employees as it paves the way for them to shape their work in the context of shared corporate goals and ultimately they work for the achievement of these goals.
- Strategy formulation & implementation gives an opportunity to the management to involve different levels of management in the process.
- It improves corporate communication, coordination and allocation of resources.

With all the benefits listed above, it is quite clear that strategy forms an integral part of an organization and is the means to achieve the end in an efficient and effective manner.

Q2- Define concept of internation expention? Discuss as an international expention by firm advantage and disadvantage? (v v v v v imp)

Ans – INTERNATIONAL EXPANSION

An organization can "go international" by crossing domestic borders as it employs any of the strategies discussed above. International expansion involves establishing significant market interests and operations outside a company's home country. Foreign markets provide additional sales opportunities for a firm that may be constrained by the relatively small size of its domestic market and also reduces the firm's dependence on a single national market. Firms expand globally to seek opportunity to earn a return on large investments such as plant and capital equipment or research and development, or enhance market share and achieve scale economies, and also to enjoy advantages of locations. Other motives for international expansion include extending the product life cycle, securing key resources and using low-cost labour. However, to mold their firms into truly global companies, managers must develop global mind-sets. Traditional means of operating with little cultural diversity and without global competition are no longer effective firms (Kedia and Mukherji, 1999).

International expansion is fraught with various risks such as, political risks (e.g. instability of host nations) and economic risks (e.g. fluctuations in the value of the country's currency). International expansions increases coordination and distribution costs, and managing a global enterprise entails problems of overcoming trade barriers, logistics costs, cultural diversity, etc.

There are several methods for going international. Each method of entering an Growth Strategies-I overseas market has its own advantages and disadvantages that must be carefully assessed. Different international entry modes involve a tradeoff between level of risk and the amount of foreign control the organization's managers are willing to allow. It is common for a firm to begin with exporting, progress to licensing, then to franchising finally leading to direct investment. As the firm achieves success at each stage, it moves to the next. If it experiences problems at any of these stages, it may not progress further. If adverse conditions prevail or if operations do not yield the desired returns in a reasonable time period, the firm may withdraw from the foreign market. The decision to enter a foreign market can have a significant impact on a firm. Expansion into foreign markets can be achieved through

- Exporting
- Licensing
- Joint Venture
- Direct Investment

Exporting: Exporting is marketing of domestically produced goods in a foreign country and is a traditional and well-established method of entering foreign markets. It does not entail new investment since exporting does not require separate production facilities in the target country. Most of the costs incurred for exporting products are marketing expenses.

Licensing: Licensing permits a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possible for technical assistance. Licensing has the potential to provide a very large ROI since this mode of foreign entry also does require additional investments. However, since the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

Joint Venture: There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

Joint ventures are favoured when:

- The partners' strategic goals converge while their competitive goals diverge;
- The partners' size, market power, and resources are small compared to the industry leaders; and
- Partners' are able to learn from one another while limiting access to their own proprietary skills.

The critical issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions. Potential problems include, conflict over asymmetric investments, mistrust over proprietary knowledge, performance ambiguity – how to share the profits and losses, lack of parent firm support, cultural conflicts, and finally, when and how when to terminate the relationship.

Joint ventures have conflicting pressures to cooperate and compete:

- Strategic imperative; the partners want to maximize the advantage gained for the joint venture, but they also want to maximize their own competitive position.
- The joint venture attempts to develop shared resources, but each firm wants to develop and protect its own proprietary resources.
- The joint venture is controlled through negotiations and coordination processes, while each firm would like to have hierarchical control.

Direct Investment: Direct investment is the ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct investment may be made through the acquisition of an existing entity or the establishment of a new enterprise. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high degree of commitment and substantial resources. Exhibit 2 compares different International Market Entry Modes.

Exhibit 2: Comparison of International Market Entry Modes

Mode	*Conditions Favoring this Mode*	*Advantages*	*Disadvantages*
Exporting	Limited sales potential in target country; little product adaptation required High target country; production costs Liberal import policies High political risk	Minimizes risk and investment Speed of entry Maximizes scale; uses existing facilities	Trade barriers & tariffs add to costs Transport costs Limits access to local market information Company viewed as an outsider
Licensing	Import and investment barriers Legal protection possible in target environment Low sales potential in target country Large cultural distance Licensee lacks ability to become a competitor	Minimizes risk and investment Speed of entry Able to circumvent trade barriers High ROI	Lack of control over use of assets Licensee may become competitor Knowledge leakages License period is limited
Joint Ventures	Import barriers Large cultural distance Assets cannot be fairly priced High sales potential Some political risk Government restrictions on foreign ownership Local company can provide skills, resources, distribution network, brand name etc.	Overcomes ownership restrictions and cultural distance Combines resources of 2 companies Potential for learning Viewed as insider Less investment required	Difficult to manage Dilution of control Greater risk than exporting & licensing Knowledge spillovers Partner may become a competitor
Direct Investment	Import barriers Small cultural distance Assets cannot be fairly priced High sales potential Low political risk	Greater knowledge of local market Can better apply specialised skills Minimise knowledge spillover Can be viewed as an insider	Higher risk than other modes Requires more resources and commitment May be difficult to manage the local resources.

There are three major strategy options for going international:

Multidomestic: The organization decentralizes operational decisions and activities to each country in which it is operating and customizes its products and services to each market. For years, U.S. auto manufacturers maintained decentralized overseas units that produced cars adapted to different countries and regions. General Motors produced Opel in Germany and Vauxhall in Great Britain while Chrysler produced the Simca in France and Ford offered a Canadian Ford.

Global: The organization offers standardized products and uses integrated operations. Example: Ford is treating its Contour as a car for all world markets—one that can be produced and sold in any industrialized nation.

Transnational: The organization seeks the best of both the multidomestic and global strategies by globally integrating operations while tailoring products and services to the local market. In other words a company 'thinks globally but acts locally'. Many authors refer to this concept as 'Glocalization'. Global electronic communications and connectivity can help integrate operations while flexible manufacturing enables firms to produce multiple versions of products from the same assembly line, tailoring them to different markets. This gives more choice in locating facilities to take advantage of cheaper labor or to get the best of other factors of production

Managing Global Supply Chains to Enhance Competitiveness

Logistics capabilities (the movement of supplies and goods) make or mar global operations. Global operations involve highly coordinated international flow of goods, information, cash, and work processes. Setting up a global supply chain to support producing and selling products in many countries at the right cost and service levels is a very difficult task. However the benefits of managing this difficult task has many benefits, which include rationalization of global operations by setting up right number of factories and distribution centers and integration of far-flung operations under a unified command to better manage inventory and order filling activities. Optimizing global supply chain operations can cut the delivery times and costs drastically and improve global competitiveness. Smart supply chain planning may result in locating facilities where they make the most logistical sense, while saving on taxes. This is better than simply locating where labor is cheapest, but where taxes and other cost may not be most favourable

Q3- Define Porter's Five Forces Framework and how it can be used for analysing competitive environment of an industry? (v v v v v imp)

Ans – Porter's Five Forces Framework

The five forces framework developed by Michael Porter is the most widely known tool for analyzing the competitive environment, which helps in explaining how forces in the competitive environment shape strategies and affect performance. The framework as shown in Figure suggests that there are competitive forces other than direct rivals which shape up the competitive environment. These competitive forces are as follows:

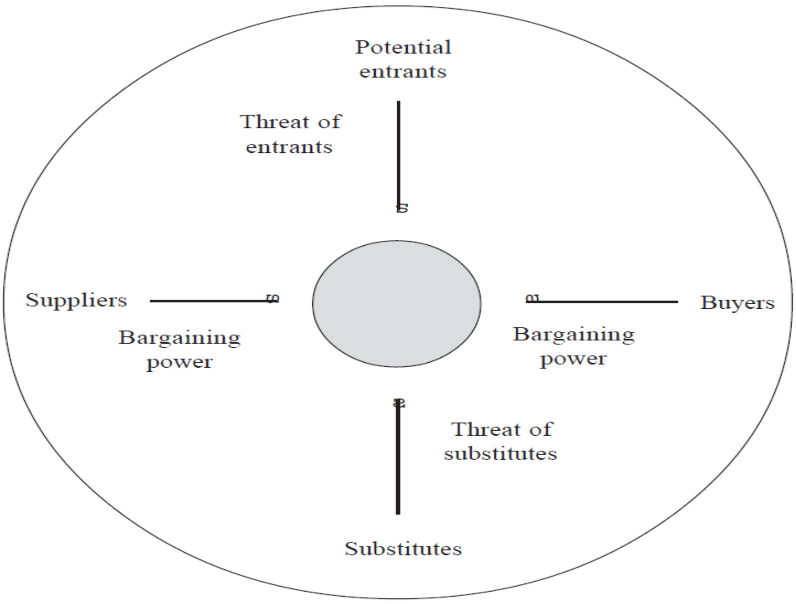
1) The rivalry among competitors in the industry
2) The potential entrants
3) The substitute products
4) The bargaining power of suppliers
5) The bargaining power of buyers

However, these five forces are not independent of each other. Pressures from one direction can trigger off changes in another which is capable of shifting sources of competition. In the following section each of these five forces are discussed in detail as to understand how each of these forces affect an Industry's environment so that one can identify the most appropriate strategic position within the industry.

1) Threat of New Entrants

Entry of a firm in and operating in a market is seen as a threat to the established firms in that market. The competitive position of the established firms is affected because the entrants may add new production capacity or it may affect their market shares. They may also bring additional resources with them which may force the existing firms to invest more than what was not required before. Altogether the situation becomes difficult for the existing firms if not threatening always and

Five Forces Analysis



Marketing Teacher
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Figure 5.1. Five Forces Analysis

Source: Adapted from M.E. Porter, Competitive Strategy, Free Press, 1980, p. 4

therefore they resort to raising barriers to entry. These barriers are intended to discourage new entrants and this may be done by organisations, be in any one or more ways, as discussed below:

a) ***Economies of Scale***: Firms which operate on a large scale get benefits of lower cost of production because of the economies of scale. Since the new firm normally would start its operation at a smaller scale and therefore will have a relatively higher cost of production, its competitive position in the industry gets adversely affected. This barrier created through large scale of operation is not only applicable for production side but it can be extended to advertising, marketing, distribution, financing, after sales customer service, raw materials, purchasing and Research and Development as well. For example, you would have noticed in durable industry the kind of investments which players like Samsung and LG do on advertising and promotions normally and specially during events like World Cup cricket match. This makes it nearly impossible for any new third player to launch and sustain such intensive and investment driven maketing attack.

b) ***Learning or Experience Effect***: The theory explaining the experience curve or the learning curve suggests that as firms produce they grow more efficient and this brings them cost benefits. The efficiency levels achieved is an outcome of the experience, which teaches the organization better ways of doing things. This again keeps any new entrant at a disadvantage.

c) ***Cost Disadvantage Independent of Scale***: New entrants may face disadvantages which are independent of the operations. It may be on account of the lack of proprietary product knowledge such as patents, favourable access to raw material, favourable locations, existing plants built and equipped years earlier at lower costs, lower borrowing costs etc.

d) ***Brand benefits***: Buyers are often attached to established brands. Differences in physical or mere perceived value make existing products unique and the new entrants have to tire out to beat such brands and change the mindset of the customers.

e) ***Capital Requirements***: High investments required for a start up in any business is another deterrent for new entrants bringing down the possibility of increased competition.

f) ***Switching Costs***: Switching costs, which is nothing but the expenses (financial or psychological) which a customer incurs in switching from one seller to another. Cases where such an expense is higher, new entrants find it difficult to establish or survive. Such costs may be because of a strong brand association or the comfort level a customer may be enjoying or it may be on account of a particular technology like Windows operating systems which most customers use and therefore will find it inconvenient to switch to a system like LINUX so easily.

g) ***Access to Distribution Channel***: Any such critical activity like distribution channel in the business can be a barrier for the entrants when accessibility to them is found to be difficult. Most existing firms in FMCG industry are found to have a strong favourable distribution channels which is very difficult to penetrate. For example in India you can think of HLL which commands a deeply entrenched distribution network.

h) ***Anticipated Growth***: Incumbents in a rapidly growing market are less likely to respond to a new entrant when the market's growth offers enough opportunities to share. But a new entrant position will be opposite in a slowly growing market.

In addition to the above, few general entry barriers exist in each industry's case, for example, regulatory policies, tariffs and international trade restrictions are few such additional factors.

2) Bargaining Power of Suppliers

Business organizations have a large dependency on suppliers and the latter influence their profit potential significantly. Suppliers' decisions on prices, quality of goods and services and other terms and conditions of delivery and payments have significant impact on the profit trends of an industry. However, suppliers' ability to do all these depends on the bargaining power over buyers.

Suppliers' bargaining power would normally depend on:

a) ***Importance of the Buyer to the Supplier Group:*** The size of the supplies taken by a particular buyer is likely to put the buyers in a relatively advantageous position. The same may be found true if the supplier tends to get an image advantage by supplying to a particular firm. Consequently in dealing with such buyers, suppliers' bargaining power is naturally reduced. Just opposite happens when buyer is not so important to the supplier and the latter then is less likely to offer favourable terms to win or retain the customer.

b) ***Importance of the Supplier's Product to Buyers*:** Here the position may just be opposite of the above situation where suppliers have a better bargaining power coming from their sheer size or image.

c) ***Greater Concentration Among Suppliers than among Buyers*:** An industry, which is largely dominated by a few large firms is a highly concentrated industry. Such few firms hold greater power with them as the proportion of the industry's total output is in hands of such large firms. This gives such firms greater power over those who do business with them. The converse is true when industry has low concentration in suppliers. A higher concentrated supplier position may be possible on account of the sources of raw materials available, R & D or patent rights available with fewer firms.

d) ***High Switching Costs for Buyers*:** In this case buyers suffer because of the suppliers' advantageous position or by the nature of supplies itself, the buyers have to face a higher switching cost.

e) ***Credible Threat of Forward Integration by Suppliers*:** Suppliers in a given situation may see an opportunity in moving up the value chain and may seriously think of getting into the business of what its buyers have been doing till now. Any indication of that nature from supplier side puts the buyers at the receiving end as they feel threatened because of a new player in that market and of losing an assured source of supplies. A recent example may be of Reliance which has decided to move from exporation and refining of oil to seeling of oil through its own retail petrol pumps.

3) Bargaining Power of Customers

Customers with a stronger bargaining power relative to their suppliers may force supply prices down or demand better quality for the same price and may demand more favourable terms of business. For instance, there will always be a difference in the bargaining power between an individuals buying different construction material like cement, steel or bricks and a real estate builder buying them for the number of properties he may have been building over so many years.

Few of the following facts attach greater power to buyers:

a) **Undifferentiated or Standard Supplies:** A supplier, given the nature of products it supplies, may have a very limited choice in providing any differentiated products and this enables a customer to get the deal at the most favourable terms. In a perfectly competititve market situations with large number of suppliers, prices automatically are at their lowest.

b) **Customer's Price Sensitivity:** Customer's buying behaviour vary with respect to their sensitivity to prices. Depending on how important the item is for the customer's usage and proportion he may be spending on the item concerned, buyers' sensitivity to price varies. Any customer with high price sensitivity gains advantage in its bargaining power.

c) **Accurate Information about the Cost Structure of Suppliers:** A more informed customer is capable of negotiating with suppliers. Whenever such customers notice a decline in the supplier's costs they would always bargain for a proportional decrease in price. This aspect is more relevant in today's context of global markets where cost benefits can come from anywhere in the world at any point in time for various reasons. There may be a general decline in prices of a product in world market because of a glut situation or somewhere some new discoveries may have pulled the prices down.

d) **Greater Concentration in Buyer's Industry than in Supplier's Industry and Relatively large Volume Purchase:** This means that buyers are large and more powerful than suppliers. Government departments like police department when negotiating for large orders of security weapons or intelligence equipments will necessarily command a greater hold than its supplier as there will be only few number of such institutions buying them at a given point of time.

e) **Credible threat of Backward Integration by Buyers:** Different from forward integration which suppliers tend to attempt at, buyers in order to hold their position stronger in the market may integrate in backward manner. This will mean that the buyer extends sitself to the previous stage of manufacturing or distribution for which it had been dependent on suppliers till now. An example could be of an entertainment channel which airs programmes outsourced from organizations producing them outside, get into the business of producing its programmes in house.

4) Threat of Substitutes

Often firms in an industry face competition from outside industry products, which may be close substitutes of each other. For example, with the new technologies in place now the electronic publishing are the direct substitutes of the texts published in print. Similarly, newspaper find their closest substitutes in their online version, though it may be a smart strategic move to position them as complementary products.

However, the competitive pressure, which any industry may face, depends primarily on three factors:

1) whether the substitutes available are attractively priced;
2) whether buyers view substitutes available as satisfactory in terms of their quality and performance;
3) how easily buyers can switch to substitutes.

Generally it is observed that the availability and acceptability of substitutes determine an upper price limit to a product. When relative prices of the product in question rise above that of the substitute products, customers tend to switch away from them.

5) Competitive Rivalry

The level of rivalry is minimum in a perfectly competitive market where there are large number of buyers and sellers and the product is uniform with everyone. Same is true for a monopoly market where there is only one player and the type of product is also one. However in case of oligopoly or monopolistic competition, where you will find few players and the market conditions allow them to differentiate their products and services, competition if found to be fierce. Few of the following factors explain the level of rivalry:

a) ***The Stability of Environment*:** An unstable environment is likely to call for a hyper-competitive situation and of the several factors that affect stability could be technological innovation, changes in government regulations, customers' profile and their needs. In an industry which witnesses high movements in terms of entry or exit, the rules of the game may change too frequently. One of such instances of fierce competition could be noticed on account of the onslaught of new technologies like CDMA affecting the general environment of telecom industry in India. The entry of Reliance India Mobile with CDMA technology intensified the rivalry between telecom players to such an extent that the government had to intervene through its institution, Telecom Regulatory Authority of India (TRAI).

b) ***The Life Expectancy of Competitive Advantage*:** There are industries for example consumer electronics or white goods in which the fruits of innovations do not last longer and hence the companies do not even bother to patent them. This has an adverse implication for the stability of the competitive environment leading to intense rivalry. Length of innovation cycle, patent protection or switching costs between rivals are few factors, which may impact the life expectancy of competitive advantage.

c) ***Characteristics of the strategies pursued by competitors*:** This also has or may have an impact on the general approach to rivalry. For example, in a market segmented approach on part of the competitor leads to lesser rivalry situation. Also the kind of goals, which competitors pursue has an impact on the rivalry. Competitors pursuing the goal of increased market share will lead to increased rivalry again.

Lastly, few implications can be picked up from the five forces framework itself. Lower threats to entry or a higher possibility for substitutes have the potential of increasing rivalry. A lower engagement between supplier will result into a lesser rivalry. So will be the effect when buyers face higher switching costs.

In an overall assessment, two critical observations regarding rivalry can be made here. First a powerful competitive strategy employed by one rival can greatly intensify the competitive pressure on other rivals. Second, the frequency and rigor with which rivals use any or all competitive weapons at their disposal can be a major determinant of whether the competitive pressures associated with rivalry are cutthroat, fierce, strong, moderate or weak.

Q4- Define type of resources which organizations possess and their strategic importance Expain the resource based view (RBV)? (v v v v v imp)

Ans – TYPES OF RESOURCES

There are three types of resources – assets, capabilities and competencies, which have been identified under Resource Based View of the firm (RBV). Strategic thinkers explaining the RBV suggest that the organizations are collections of tangible and intangible assets combined with capabilities to use those assets. These help organizations develop understanding these three types of resources and help us to know how a firm's internal strength and weaknesses affect its ability to compete.

Assets

The factors of production used by firms in providing its customers with valuable goods and services are called **assets**. These assets are of two types- tangible assets and intangible assets. Any physical means a firm uses to provide value to its customers form its tangible assets. Similarly, intangible assets are equally valuable for firms but their physical presence cannot be felt or seen. For example, a brand name is a very important resource for any organization even though it is intangible.

Few examples of tangible assets	Few examples of tangible assets
ı Firm's property and equipment	ı Brand name, which is trusted
ı R & D firm's patents	ı Knowledgeable workforce
ı Distribution network	ı Robust Organization structure
ı IT network system	ı Organizational Culture

Capabilities

In order to take full advantage of its assets the organization needs to develop skills, as experience suggests that with similar assets two different firms may add value of different amount for themselves. This difference can only be explained by the differences these organizations carry their capabilities in utilizing these assets. For example, in a sector like management education, in a typical segment you will find institutions more or less with similar resources and infrastructure, however, the quality of their output in terms of new professionals for business may be starkly different for different institutions. This is greatly reflected in the type of organizations that pick them up for employment and the kind of job responsibilities they are offered. This difference in output can be explained on account of the skills which these institutions carry with themselves. This position has been found true in case of many Indian companies as well as the multinational corporations.

Competencies

Most simply put, it refers to the ability to perform. Experts from field of strategy, using the term 'distinctive competencies' refer to the critical bundle of skills that an organization can draw on to distinguish itself from competitors. However, in order to have a better understanding of the concept, you need to understand first the resources, which are available to an organization and how they differentiate themselves as competencies or core competencies.

Strategic Importance of Resources

1) Available Resources: are those resources that are basic to the capability of any organization which can be listed broadly as:

***Physical Resources*:** Few examples may be buildings, machinery or operational capacity. However, the specific condition and capability of each resource determines their usefulness.

***Human Resources*:** Traditionally or in today's knowledge economy both, people are considered as 'the most valuable asset' of an organization. Knowledge and skill of people together prove to be a great asset.

Financial Resources of an organization may lie in capital, cash, debtors and creditors and providers of money.

***Intellectual capital*:** Intangible resources include the knowledge that has been captured in patents, brands, business systems and relationships with associates. In knowledge economy intellectual capital is considered as a major asset of many organizations.

Figure 6.1 shows a relationship between the resources, competencies and the competitive advantange.

	Same as Competitors' or Easy to imitate	**Better than Competitors' or Difficult to imitate**
Resources	Threshold Resources	Unique Resources
Competencies	Threshold competencies	Core competencies

Figure 6.1: Resources, competencies and competitive advantage

2) Threshold Resources

Organizations need a set of threshold resources to perform in any market and there is a continuous need to improve such resources to stay in business. This becomes inevitable because of the competitors and sometimes the new entrants. We can think of many industries in India like automobile, durable goods, telecom etc. which with the foreign players had to acquire new sets of resources as their threshold resources to survive.

3) Unique Resources

Unique resources as defined in strategy texts are those resources, which critically underpin competitive advantage. Their ability to provide value in product is better than competitor's resources and are difficult to imitate. Just think of a big music stores like Planet M or the ones from RPG group, the scale and range of collection of music provides uniqueness to these stores as compared to any of the traditional music shop. Some organizations have patented products or services that give them advantage for some service organizations, unique resources may be particularly the people working in that organization.

4) Core Competencies

Above, we learnt that competencies refer to the ability to perform. The difference in performance between organisations in the same market is rarely explainable by differences in their resource base, since resources can usually be imitated or traded. Superior performance are actually determined by the way in which resources are deployed to create competences in the organisation's activities. An organization needs to achieve a threshold level of competence in all of the activities and processes.

Core competencies are activities or processes that critically underpin an organization's competitive advantage. They create and sustain ability to meet the critical success factors of particular customer groups better than other provides ways that are difficult to imitate. Again as put forward by the resource based view, a series of guidelines are discussed below, which you can use to asses what constitutes a valuable asset capability or competence.

Scarcity **:** This is a very basic test to understand its resource value. Just in case any resource is widely available, then it's not likely to be a source of competitive advantage.

Inimitability : A resource that is easy to imitate is of little competitive advantage because it will be widely available from a variety of sources. e. g. services / design etc. Inimitability however does not last for long and at some point competition matches or even betters any offering. However, firm's should make an effort which may temporarily limit imitation. Physical uniqueness, causal ambiguity or scale deterrence are few ways how organizations attempt doing this.

Durability **:** Hyper competitive market conditions have a tendency to make competitive advantage less and less sustainable. Durability in such situations become a more stringent test for valuing resources, capabilities and competencies.

Superiority **:** Competencies are valuable only if they manifest themselves as competitive advantages and this means that they are superior to those held by rivals. Being good is not enough and a firm must be better than its competitor.

The above points lead to determining how a firmís internal resources might be linked to producing a competitive advantage and which resources actually fit in so as to produce a competitive advantage.

Q5 Explain the concept of differentiation strategy. Illustrate your answer with suitable examples? (v v v v v imp)

Ans – DIFFERENTIATION-- Every individual customer is unique in itself so is his/her preferences regarding tastes, preferences, attitudes, etc. These needs of the customers are fulfilled by the organizations by producing differentiated products. In our day-to-day life we see many such examples of differentiated products. Most of the fast moving consumer goods like biscuits, soaps, toothpastes, oils, etc. come under the category of differentiated products. To satisfy the diverse needs of the customers, it becomes essential for the organizations to adopt a differentiation strategy. To make this strategy successful, it is necessary for the organizations to do extensive research to study the different needs of the customers. An organization is able to differentiate from its competitors if it is able to position itself uniquely at something that is valuable to buyers. Differentiation can lead to differential advantage in which the organization gets the premium in the market, which is more than the cost of providing differentiation. The extent to which the differentiation occurs depends on the overall strategy of the organization. Previously differentiation was viewed narrowly by the organizations, but in the present scenario it has become one of the essential components of the organization's strategy.

When we talk of differentiation, it can be said that virtually any product can be differentiated. The greatest potential of differentiation lies in products, which are of complex nature but do not have to adhere to strict regulatory standards, but the success of a differentiation strategy depends on the organization's commitment towards customers and the understanding of customer needs as differentiation is all about perceiving on the part of the customer of something unique. Differentiation can be said to have more competitive advantage than the cost advantage as it is quite difficult to imitate the differentiated products. Even if the initiation is done in terms of concept, then also a particular product remains unique regarding its value, style, packaging, etc. Therefore, when we talk about differentiation, it is important to understand the demand of the customers and fulfilling this demand keeping in mind the differentiation advantage. In this case, one thing the organizations should concentrate on is creativity and innovativeness than on market research. We have discussed about the concept of differentiation as a whole but we need to know the why aspect of differentiation, i.e., why do the organizations need differentiation?

Need

There are a number of reasons depending on the nature of organization to adopt a differentiation strategy. It is not necessary that the organization should and must go for differentiation strategy if it does not require one. The requirement is need based and depends on the organization's position in the market. There are a number of factors which result in differentiation. Some of them are as follows:

- To compete against the rivals;
- To create entry barriers for newcomers by building a unique product;
- To reduce the threats arising from the substitutes;
- To develop a differentiation advantage.

Looking at these reasons, one can say that differentiation indeed helps the organizations to get a competitive advantage over its rival organizations.

TYPES OF DIFFERENTIATION

Differentiation can be classified into two basic types vis a vis.

- Tangible differentiation
- Intangible differentiation

As the name suggests, tangible means, something which is real and can be seen, touched, etc. whereas intangible means, something which is abstract in nature and cannot be touched, it can just be felt. We have already discussed the tangible aspect. In fact most of the time while discussing differentiation, we actually discuss the tangible differentiation. Table shows some of the opportunities available for creating uniqueness within the organization. These opportunities in one way or the other measure the performance of the organization, but when these opportunities are related to the customer's psychology, the intangible aspect to differentiation comes into the picture.

FIG-Opportunities for Creating Uniqueness within the Organization

Activity	Differentiation opportunity
Purchasing	Quality of components and material acquired
Design	Aesthetic appeal Robustness of performance Ease of maintenance
Manufacturing	Minimization of defects
Delivery	Speed in fulfilling customer orders Reliability in meeting promised delivery items
Human Resource Management	Improved training and motivation increases customer service capability
Technology Management	Permits responsiveness to the needs of specific customers
Financial Management	Improves stability of the organization
Marketing	Building of product and company reputation through advertising
Customer Service	Providing pre-sales information to customers

Projecting an image about a particular product is one form of intangible differentiation. This can be done with the help of packaging, style, etc. This shows that tangible as well as intangible differentiation goes hand in hand and either of them cannot exist independently. Exhibit 1 show some tangible and intangible components, which result in differentiation of a particular product.

FIG-Tangible and Intangible Components of Differentiation

Intangible differentiation is more effective in those cases where the customer has once experienced the product, for example, chocolates. Every brand has a unique taste, different packaging style, etc. This is the case where quality can be judged only after using the product once but in case where the quality cannot be judged by experience, e.g., medical services, the intangible differentiation is not that effective. In short, it can be said that intangible differentiation is accompanied by tangible differentiation.

Tangible	Intangible
Design	Image
Packaging	Brand
Style	Company reputation
Quality	Customer preferences

COST OF DIFFERENTIATION

Differentiation is usually costly. The differentiation adds costs as it involves added features to cater to the needs of the customers. Usually the cost is incurred in the following cases:

There can be many more cost drivers depending on the nature of the organization's activity. It is not necessary that differentiation is always costly. Some differentiation is surely costly but if the value activities are coordinated properly, the costs can be minimized. The cost of maximizing profits by minimizing costs can surely be achieved. It is believed that differentiation in having more product features can be more costly than having different but more desired features. Similarly, for bigger products, differentiation is likely to be less costly than for the small products like soaps. The cost of differentiation more or less depends on the cost drivers. The cost drivers determine the uniqueness of the differentiation activity for a particular organization. The different forms of differentiation have different effect of cost drivers. But the crux of the whole concept is that the cost be minimized to achieve an appropriate differentiation strategy, which gives a premium price for the product. Though it is very difficult to develop a trade-off between differentiation and cost efficiency but not impossible. This practice is very popular in case of automobile industry where different organizations have many variants but the difference is basically related to the features of the product. With the world becoming smaller due to high technological innovations, differentiation strategies adopted by many organizations is accompanied by computer aided work culture. Though application of modern technology increases the cost but on the other hand, the labour cost is reduced to a large extent and technical efficiency achieved is very high. The economies of scale can be exploited to a large extent with the help of a trade-off between cost and differentiation.

Q6- Explain the Process of formulating a competitive strategy.Explain the Concept of competitor analysis? (v v v v v imp)

Ans – FORMULATION OF COMPETITIVE STRATEGY -Any organization in any type of industry has a competitive strategy. This may be explicit or implicit in nature. If it is explicit then it is developed through a planning process taking into account the external environment and if it is implicit then it is developed through the activities of different functional units. In the present context the combination of the explicit and implicit strategies can be the best option as it gives the direction to the organization to achieve its set objectives. Developing a competitive strategy is technically developing a formula for success. It should answer the following questions?

- What are the goals (ends) of the organization?
- What are the policies (means) to achieve these goals?

This is a classical approach to formulate a strategy but is still relevant in formulating any kind of strategy. Figure 8.1 depicts the "Wheel of Competitive Strategy" (Porter, 2008) which gives a broad view of an organization competitive strategy.

This is a classical approach to formulate a strategy but is still relevant in formulating any kind of strategy. Figure depicts the "Wheel of Competitive Strategy" (Porter, 2008) which gives a broad view of an organization competitive strategy.

Fig -The Wheel of Competitive Strategy

The centre point depicts the goals of the organization which defines the way the business is going to compete including the economic and noneconomic objectives. The spokes of the wheel depict the functional areas through which the goals of the organization can be achieved. Each spoke defines the key operating policies for a specific functional area. This wheel can be modified as per the needs of the organization. Therefore, the hub represents the goals and the spokes represent the policies.

Level of formulating competitive strategy

There are four key factors which determine the capability of the organization to successfully achieve these goals. Figure depicts these factors.

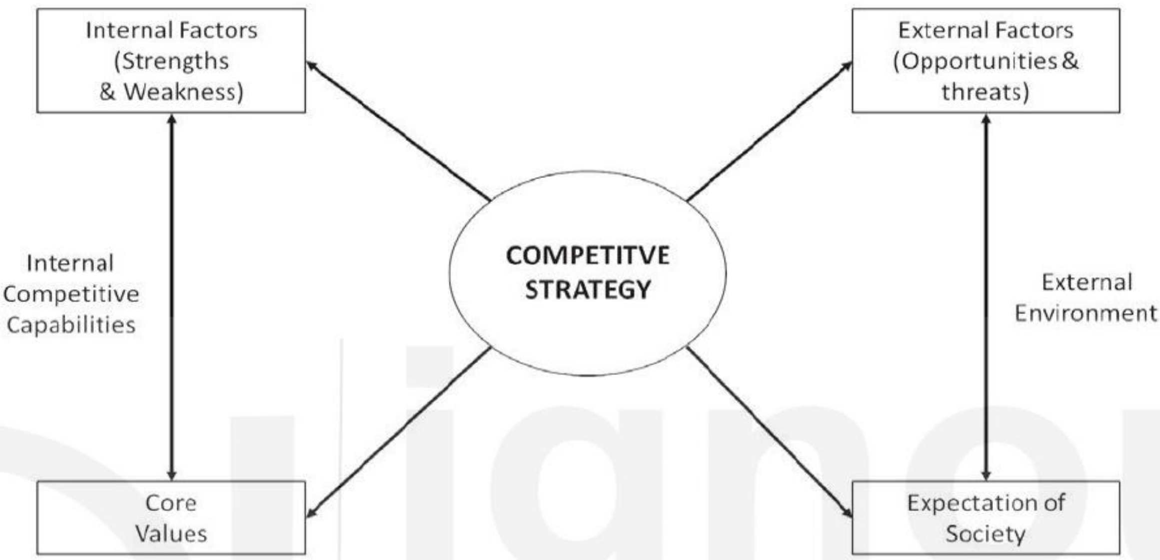


Fig-Factors determining the formulation of competitive strategy

An organization must take into consideration these four factors to develop realistic competitive strategy.

Consistency testing

It is necessary for an organization to test for consistency of the competitive strategy taking into consideration four important variables. These are

- Internal Consistency
- Environmental Fit
- Resource Fit
- Implementation

There are certain parameters which need to be checked for all the variables. These are as follows:

Internal Consistency

- Realistic goals;
- Key operating policies in sync/alignment with the goals;
- Key operating policies in sync with each other.

Environmental fit

- Capitalization of industry opportunities as per the goals and the policies;
- Goals and policies deal with the industry threats;
- Timing of the goals and policies with respect to the environmental changes;
- Goals and policies respond to societal expectation.

Resource fit

- Goals and policies match the available resources;
- Goals and policies adaptable to change.

Implementation

- Well designed goals which can be implemented;
- Alignment of goals and policies with that of the core values;
- Sufficient managerial capability for effective implementation.

The above considerations help in formulating an effective competitive strategy. The organization need to then follow the process of formulating a strategy.

FRAMEWORK FOR COMPETITOR ANALYSIS-

We have learnt how a competitive strategy is formulated. After the formulation of the strategy the organization needs to position its business in such a manner that it maximizes its value proposition. Competitor analysis is one of the major components of strategy formulation. Therefore, it is important for organization to perform a competitor analysis.

There are four components which need to be covered in a competitor analysis. These are:

1. Future Goals
2. Current Strategy
3. Assumptions
4. Capabilities

An organization should analyze both the existing as well as the potential competitors. Figure describes the components of a competitor analysis.

1. **Future goals**: It is very important to diagnose the goals of the competitors as it helps in:
   - Predicting the current financial position of the organization;
   - Predicting the strategic moves of the competitors if they are not satisfied with their present position;
   - Predicting the reaction of the competitor to the external environment;
   - Predicting reactions to strategic changes.

   This can be understood with the help of an example. Suppose there are two organizations A and B. A is interested in maintaining stable sales growth being conservative in nature whereas B is interested in maintaining its rate of return on investment. Both the organizations will react differently to the situations like downturn in the business or increase in the market share.

   In diagnosing the future goals of the competitors apart from the financial position, qualitative factors like targets with respect to market leadership, technological status, social status etc. is also important.

2. **Assumptions**: This is the second component in the competitor analysis and is quite critical in nature. There are two categories when the competitor's assumptions are identified.

   (a) Self-Assumption of the competitor;

   (b) Competitors' assumption about the industry and other organizations which are a part of the industry.

   When we talk about self-assumptions then it means the set of assumptions in which an organization is operating. For e.g. the competitor may have an assumption that it is a market leader or an assumption that it is a socially conscious organization etc. These assumptions act as the directing force for the organizations behaviour. It is not necessary that the assumptions made by the organization are accurate. This is where it loses the market share before it recognizes that there was flaw in its assumptions.

   Similarly, the competitor's assumption about the industry also may not be accurate. Therefore, it is important to identify the biases, popularly known as blind spots so that the errors are minimized.

3. **Current Strategy**: The third component is assessing the current strategy of the competitors. This includes the policies in the functional areas. In competitor analysis it is necessary to assess both the internal and external strategies of the competitor.

4. **Capabilities**: This is the last component in the competitor analysis. This includes assessing the competitors' strengths and weaknesses which is done by using Porters five forces. The capabilities include the core competencies of the organization. The capabilities can be core or quick response capabilities, adaptability and sustainability.

   Combining the four components, the competitors' position, as defensive or offensive, can be judged. This helps the organization to predict the moves to be made by the competitors.

Q7- Discuss the models of corporate governance? (v v v v v imp)

Ans – There are seven basic models of corporate governance. These are:

1. Canadian Model
2. UK and American Model
3. German model
4. Italian model
5. France model
6. Japanese model
7. Indian model

We will discuss these models in brief:

1. **Canadian Model**: Canada is country which has a large influence of French culture. This is because it was a colony of France and Britain. Till 19th century, the industries in Canada were basically family businesses but for the past five decades the scenario has changed and now it resembles the US industry structure. Looking at its corporate governance structure it is visible that it was one of the early initiators of corporate governance.

2. **UK and American model/ Anglo-American model**

   Sarbanes Oxley Act (SOX) was passed in July 2002 with the aim to provide more transparency and accountability to US corporate. This act focuses on the following:

   - Re-establish investor confidence through good corporate governance practices;
   - Improve accuracy and transparency in financial reporting;
   - Accounting service of listed organizations;
   - Increased corporate responsibility;
   - Auditing independently;

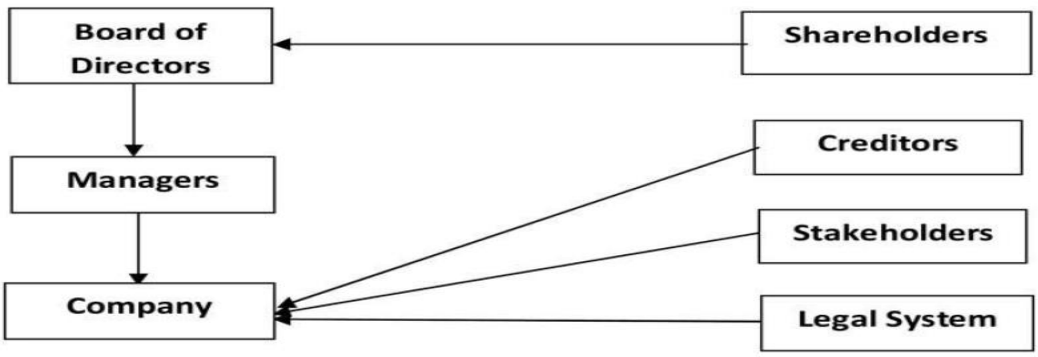


Fig- The Anglo-American Model

3-- German Model: Since 19th century Germany is known as the hub of industrialization. For the past five decades Germany has been exporting sophisticated Machinery. The financing of the German industries is being done by rich German families, small shareholders, bankers and foreign investors. Since the second half of 19th century Germany has been taking steps towards corporate governance. The company law was introduced in 1870 and 1884 company law highlighted on making the information transparent. As of now Germany has more number of family controlled businesses. Figure shows the German model of industry and corporate governance.

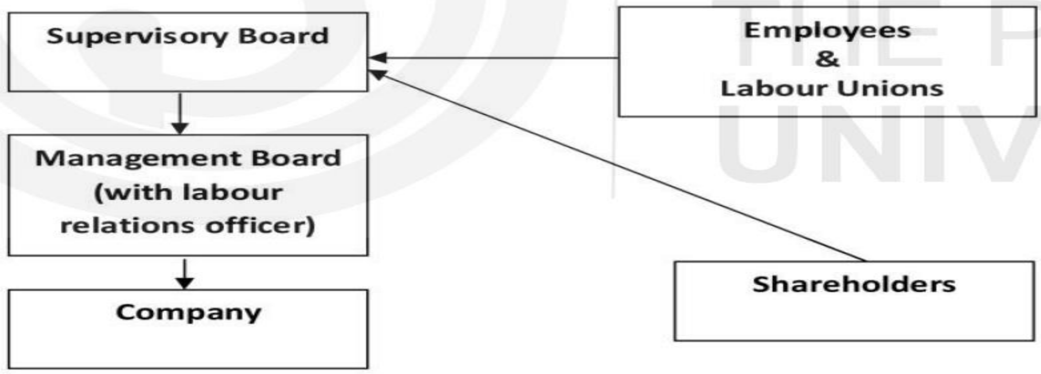


Fig- The German Model

4-- Italian Model: Since a long time the Italian business has been dominated by the family holdings. This trend continued till the 20th century. In the second half of the 20th century, the stock market gained importance. In 1931 all the Italian investment banks collapsed which led to the fascist government taking over of all the industrial shares and imposing a legal separation of investment from the commercial banks since World War II, with the introduction of the Industrial policy with no need for investor protection. Since long the corporate governance lied with bureaucrats and rich families. In the last two decades, the corporate governance is in an organized form. Now the investors in Italy are aware of their rights and importance of corporate governance.

5. **France Model:** The financial system in France was controlled by religion and the state was the main borrower. The basic form of lending was mortgage and coins were the major part of money transaction. The French industry was based on a consecutive outlook. The corporate governance was introduced in France in a stage-wise manner with economic development activities.

6. **Japanese Model:** Japan has been a conservative county where the business families were at the bottom of the pyramid. This led to the stagnation of the businesses. After World War II the change in business took place and the entry of American traders was allowed. A new culture started building up and Japanese industry started gaining which was a mix of private and state capitalization. In the early 1930's during depression, the fall of family business started to take place and in 1945 the Americans took charge of Japanese economy. The concept of corporate governance evolved only in the past 20 years. Figure shows the Japanese model of industry and corporate governance.

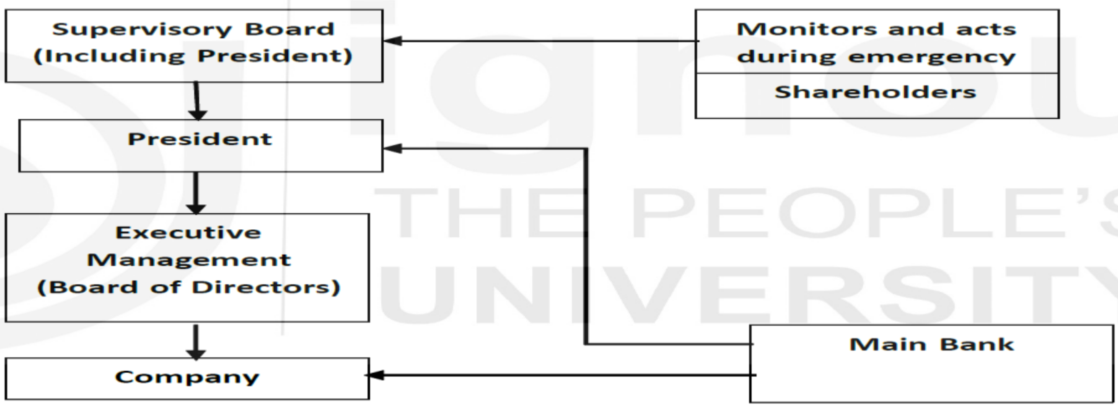


Fig- The Japanese Model

7. **Indian Model:** India has a long history of commercial activities. The formal structure of corporate governance was given by CII in 1998 which was termed as "Desirable corporate governance code". In the year 2000, SEBI established a committee under the chairmanship of report Mr. Kumar Mangalam Birla to make the report. In the same year the ministry of finance set up Naresh Chandra committee which was supposed to examine the roles, duties and independence of auditors. In 2003 SEBI revised the clause 49 of listing agreement for listed companies based on the report of N.R. Narayanswami committee. The Indian model has mandatory compliance related to the BOD, audit committees, Subsidiary compliances relating to whistle Blower Policy, shareholders lights, and audit qualification and performance evaluation of board member.

Q8- Define the concept of leadership and role of leadership in strategic management? (v v v v v imp)

Ans – Leadership- Some researchers have shown that if the executives have good leadership qualities, the productivity of the nation can increase to a large extent without additional finance or new technology. It is important to note that the theoretical approach of leadership taught in classrooms is less effective than the practical approach. The only way is to find a method of improving the leadership potential of those already shouldering responsibilities and of those who are getting ready to enter the field of leadership in any walk of life. This is the basic philosophy of the practical and holistic approach to leadership -'it is perfectly possible to improve myself; I can hope to improve others only by personal example' is its message.

Consequently the key to effective Strategic Management is to ensure that leadership runs like a uniform thread through all functions of management to integrate them into a culture of excellence. One of the primary needs for effective strategic management is to understand, in practical terms, the meaning of leadership, its functions; and, finally to ensure that effective leaders are groomed and developed at every level in an organization. Only then will strategic managers be able to conceive strategic plans and translate these plans into reality.

Concept of leadership

However, when it comes to evolving a definition or a theory of leadership we run into difficulties. "If we know too much about our leaders, we know far too little about leadership—is it essentially inspiration? Is the leader a definer of values? How do leaders lead followers without being wholly led by followers?" Leadership is one of the most observed and least understood phenomenons on earth. However, despite Maslow's perceptive diagnosis, an integrated view on this vital and age-old function in human society has not yet crystallized. Commenting on group dynamics laboratories Maslow (1965) observed: "What I smell here is again some of the democratic dogma and pity in which all people are equal and in which the conception of a factually strong person or natural leader or dominant person or superior intellect or superior decisiveness or whatever is bypassed, because it makes everybody uncomfortable, and because it seems to contradict the democratic philosophy (of course, it does not really contradict it)" .Maslow made the above remarks as he was fully aware that there were serious reservations among intellectuals and scholars to the very concept of leadership. Potential for leadership has no relation to parental stations in society. Many of the outstanding leaders in history had a non-affluent background.

The fact that the literature on leadership has number of definitions of the word indicates that it is a complex process. However, it is essential nature is the ability to get the best out of people. The definition which has the touch of practical common sense is the one evolved by a medical doctor-Lord Moran. He was the medical officer of a British Infantry Battalion during World War I. For two long years he served the Battalion in France and saw how young officers inspired their fellow citizens to fight the Germans with enthusiasm and courage, knowing well that many among them would get killed or maimed. He wondered how one individual could exercise such a decisive influence over others. It was not just the military law or discipline, because despite these there were examples of demeaning cowardice and inability to lead. About two decades later he rose to become the

Chairman of the British Medical Council and later, during World War II, he was the personal physician to Sir Winston Churchill, the war time Prime Minister of Great Britain. In that unique capacity he had a ring- side seat to observe the top leaders of the world in every human activity—politics, industry, military, labour and so on. Given below is a definition which is based on what he evolved:

"Leadership is the capacity to frame plans which will succeed and the faculty to persuade others to carry them out in the face of all difficulties." (Moran, 1984). The definition has two parts. The first deals with the capacity to frame plans (programmes, projects or whatever) that have a high probability of success. This implies that a plan should reflect a leader's grasp and feel of the quality of his/ her resources and the environments in which the plan has to be implemented. The second part of the definition deals with the implementation of the plan by persuading others to do what is really expected of them, despite difficulties, discouragement and obstacles.

FUNCTIONS OF LEADERSHIP

In practical terms a leader has to achieve the task (mission, objective or goal). For doing so, s/he has to build his/her team as a cohesive group and develop every individual in the team to give his/her very best. Consequently, s/he has to harmonize and integrate the needs related to the accomplishment of the task with those of the group he leads and individuals in the group. This is best explained diagrammatically by depicting these needs in three linked circles, as shown in Figure

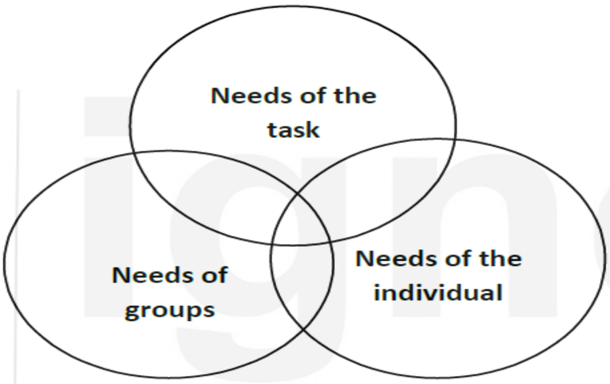


Fig - Functions of Leadership

1) Functions for needs of the task

- Defining the task
- Making the plan
- Allocating work and resources
- Controlling quality and tempo of work
- Checking performance against plan

2) Functions for needs of the individuals

- Attending to personal problems
- Praising of individuals
- Knowing individuals personally
- Recognizing and using individual abilities
- Training individuals

3) Functions of needs of the groups

- Setting standards

- Maintaining discipline
- Building team spirit
- Encouraging, motivating, giving a sense of purpose
- Appointing sub-leaders
- Ensuring communication within the group
- Training the group

The functions related to the needs of the three areas have been listed separately for easy understanding. In actual practice, however, most of these are integrated in the following steps:

- Planning to achieve the task by using the available resources and people;
- Initiating work by allocating tasks and resources;
- Controlling by monitoring the work; modifying plan;
- Supporting by encouragement and by motivating and training;
- Evaluating.

SECOND PRIORITY MOST IMPORTANT QUESTIONS

Q9- Define PESTEL framework for analysis and the implications of its factors? (v v v v v imp)
Ans – PESTEL FRAMEWORK

Careful analysis of tlie above factors will help in identifying major trends for different industries. Exhibit-1 shows the PESTEL framework which is most popularly used for such analysis.

The external forces can be classified into six broad categories: Political, Economic, Social, Technological, Environmental and Legal Forces. Changes in these external forces affect the changes in consumer demand for both industrial and consumer products and services. These external forces affect the types of products produced, the nature of positioning them and market segmentation strategies, tlie types of services offered, and choice ofbusiness. Therefore, it becomes important for the organizations to identify and evaluate external opportunities and threats so as to develop a clear mission, designing strategies to achieve long-term objectives and develop policies to acliieve short-term goals. Here, we will discuss all the six forces individually and then try to come to tlie conclusion regarding environmental analysis.

Few indicative points are listed to guide you to find the key forces at work in the general environment. While tlze framework may be used to understand tlie most important factors at the present time, it should be primarily used to look into the future impact which may be different from their present or past impact.

Exhibit 1

The PESTEL Framework– Macro-environmental influences. The framework primarily involves the following two areas:

1. Tlze environmental factors affecting the organization;
2. The important factors relevant in the present context and in the years to come.

Political

1. Government stability
2. Political values and beliefs shaping policies
3. Regulations towards trade and global business
4. Taxation policies
5. Priorities in social sector

Economic Factors

1. GNP trends
2. Interest rates/savings rate
3. Money supply
4. Inflation rate
5. Unemployment
6. Disposable income
7. Business cycles
8. Trade deficit/surplus

Socio-cultural Factors

1. Population demographics
   - ethnic composition
   - aging of population
   - regional changes in population growth and decline
2. Social mobility
3. Lifestyle changes
4. Attitudes to work and leisure
5. Education – spread or erosion of educational standards
6. Health and fitness awareness
7. Multiple income families

Technological

1. Biotechnology
2. Process innovation
3. Digital revolution
4. Government spending on research
5. Government and industry focus on technological effort
6. New discoveries/development
7. Speed of technology transfer
8. Rates of obsolescence

Legal

1. Monopolies legislation/Antitrust regulation
2. Employment law
3. Health and safety
4. Product safety

Political: Politics has a serious impact on the economic environment of a country. Political ideology and political stability or instability strongly influence the pace and direction of the economic growth. Also it contribuies to the economic environment which is conducive for some businesses to grow or remains indifferent for some businesses and at times is a hurdle. Subsequent to general elections of 2004 in the country, there has been a change in the government at the centre. A new coalition United Progressive Alliance (UPA) led by the Congress party and supported by Left is ruling at tlie centre and the implications on business can be seen through few of the policy statements announced by the government. Even though the broad policy direction is in line with the policy of an open economy and private sector initiative, the

Common Minimum Programme has identified few priority areas which is going to have an impact different tlian before. Particularly when there are certain ideologies which view differently the issues like FDI and privatization, the future ofdifferent sectors like insurance and banking, aviation and telecommunication have become uncertain.

Looking back into tlie history due to certain ideological beliefs prevalent in some section of politics, foreign companies like Coca Cola and IBM had to move out of India in the late 70s. Entry barriers, protectionist policies, high tariffs, nationalist pursuits all worked towards a closed economy which continued till tlie time liberlization policies were introduced in 1991. This situation had a cumulative effect on making the economy weak and the businesses were hardly competitive as compared to tlie international standards. However in subsequent years, tlie political consensus developed on issues such as labour reforms, power sector reforms, importance of infrastructure sector is doing a lot good for business. Nevertheless, the deteriorating standards in politics, increasing corruption and the criminal nexus are creating hurdles for business in certain areas.

Economic factors throw light on the nature and direction of the economy in which a firm operates. The firms must focus on economic trends in segments that affect their industry. For example the present trend of low interest rates on personal savings may compel individuals to move towards equity and bond markets leading to a boom in the capital market activity and the mutual fund industry. Consumption patterns are usually governed by the relative affluence of market segments and firms must understand them through the level of disposable income and tlie tendency of people to spend. Interest rates, inflation rates, unemployment rates and trends in tlie gross national product, government policies and sectoral growth rates are other economic influences it must consider.

The services sector's contribution to national income is increasing year after year and tlie family incomes are rising faster than individual incomes, job opportunities are more diverse and therefore these speak for different types of opportunities and challenges which are emerging before the business. With tlie opening up of the economy, trends in global market needs a careful look.

The above needs to be analyzed and incorporated in your inferences for tlie general environment and its other forces and how all these together may influence business.

Social

Demographic Factors: Demographic characteristics such as population, age distribution, literacy levels, inter-state migration, rural-urban mobility, income distribution etc. are tlie key indicators for understanding tlie demographic impact on environment. The shifts in age distribution caused by improved birth control methods have created opportunities for youth centric products ranging from clothes to entertainment to media. Tlie growing number of senior citizens and their livelihood needs have been highlighted and the government is being forced to pay more attention in the form of social security benefits etc.

Considering Literacy and the composition of literates in tlie country creates opportunities for particular type of industries and type of jobs. For example on one hand, tlie presence of a large number of English speaking engineers encouraged many software giants to set up shops in India and on tlie other, tlie availability of cheap labour, India becomes a destination for labour intensive projects. Moreover, large labour mobility across different occupations and regions, in recent times, has cut down wage differentials greatly and this has an impact for business which needs to be understood.

Cultural Factors: Social attitudes, values, customs, beliefs, rituals and practices also influence business practices in a major way. Festivals in India offer great business opportunity for certain industries like clothes and garments, jewellery, gift items, sweetmeats and many others, the list could be endless.

Social values and beliefs are important as they affect our buying behaviour. For example, Mc Donalds does not serve the beef burgers in India because Indians do not have cow meat since the animal is considered holy and sacred. A related example of Walt Disney also brings out clearly, the impact different cultures may bring to business. Walt Disney which has been so suffcessful in US market could not be so similarly successful in European countries because of the difference in the way in which people entertain themselves there. Walt Disney had to customize its offerings in order lo be successful in these markets. The spread of consumerism, the rise of the middle class with high disposable income, the flashy lifestyles of people working in software, telecom, media and multinational companies seem to have changed the socio-cultural scenario and this needs to be understood deeply.

Values in society also determines the work culture, approach towards stakeholders and the various responsibilites the organization thinks of owing to its stockholders and the society.

Technology: Technological factors represent major opportunities and threats which must be taken into account while formulating strategies. Technological breakthroughs can dramatically influence the organisation's products, services markets, suppliers, distributors, competitorss, customers, manufacturing processes, marketing practices and competitive position. Technological advancements can open up new marlcets, change the relative position of all industry and render existing products and services obsolete. Technological changes can reduce or elimiate cost barriers between businesses, create shorter production runs, create shortages in technical skills and result in changing valuesand expectations of customers and employees.

The impact of information technology (IT) which combines fruits of both telecommunications and computers has been revolutionary in every field. Not only has it opened up new vistas of business but also has changed the way the businesses are done. IT has specifically brought in another dimension 'Speed' which organizations recognize as the additional source of competitive advantage beyond low cost and differentiation. Manufacturers, bankers and retailers have used IT to carry out their traditional tasks at lower costs and deliver higher value added products and services.

Legal: Licensing policies, quota restrictions, import duties, Forex regulations, restrictions on FDI flows, controls on distribution and pricing of commodities together made business difficult during license permit raj before the liberalization policy of 1991. However, with economic reforms things have changed and legal formalities have eased. Nevertheless with globalization, the rules of competition, trade mark rights and patents, WTO rules and implications, price controls and product quality laws and a number of other legal issues in individual countries have become important and therefore they need to be included while understanding the general environment.

Q10- Define relationsliip between the general environment and strategy and general environment and business impact? (v v v v v imp)

Ans – GENERAL ENVIRONMENT AND ORGANIZATIONS' STRATEGY

As a next important step the manager needs to analyze the kind of impact the change may bring in their own industry as the impacts are never same for all industries. For example, the emerging younger demographic profile of India will have very different consequences for businesses say in health care or entertainment. While the former will face an adverse effect, the latter will have a positive effect and this needs to be analyzed and integrated into strategic decision making. In response to these assessments of differential impacts, managers will be able to take advantages of the opportunitiesor guard themselves of the threats. Exhibit 4 shows in how different ways various industries get affected by the different environmental trends.

Responding to these various impacts with new strategic initiatives the managers must take notice of the fact that if the changes are significant, it may have tlie potential of changing the competitive rules of the game in the industry. For example, in India the competitive rules of the game for sectors like telecoin, banking and insurance etc, in the post liberalization period changed specially in last two years. With the easing of FDI and participion of major global players, norms have changed drainatically which is reflected in the strategies of most of tlie firms in the sector. These changes can be seen in the area of technology and pricing, intensity of advertising and promotions, their business alliances and network in the country.

Managers need to be cautious of the fact that there may be developments, which are not so easy to be predicted and therefore need further attention so that they can be incorporated in their strategy. In the global context, the managers must see the kind of impact any single change will have in different markets. It is quite possible that they are very different both in degree and their nature.

Exhibit 4

	Environmental Trends	Potentially positive effects	Probably neutral effects	Probably negative effects
1.	Aging population	medical services	minerals	colleges and schools
2.	Multiple income families	fast food	machine tools	grocer's supplies
3.	Deregulation	shipping		financial sector
4.	Increased environmental lelgislation	waste management	software	leather
5.	Growing global	telecommunication small scale/handicrafts	competition	mining

Structural **Drivers** to **Change**

The PESTEL analysis gives a number of factors and their likely influences. However it is important to identify the specific factors which may influence an industry and force them towards competitive adjustments. These factors are termed as structural drivers of change which have the likely effect on the structure of an industry or on the competitive environment.

As a first step based on PESTEL analysis, the key driving forces need to be identified and then impact of the combined effect of these forces should also be made. Increasing globalization of the industry and the E enabled era could be such driving forces capable of affecting the structure of an industry or its environment.

Q11- Define Role of Cost in Business Growth and concept of cost leadership? (v v v v v imp)

Ans – Role of Cost in Business Growth

You have noted that costs play an important role in the survival and growth of a business firm. For survival, a business firm must make some profit so that it can sustain its operations on a long-term basis and fulfill its other obligations. Before a business startes operating, it has to incur certain initial costs for acquiring assets, such as land, building, plant and equipment. These assets have to be installed and commissioned. Then the raw materials are paid for and fed into the machines so that the finished goods can be produced. These are then sold in the market to generate revenue. A part of this revenue is used for repaying instalments towards loans and other borrowings. The shareholders also expect certain returns in the form of dividends on the equity held by them.

Hopefully, after meeting such expenses, the firm is left with some revenue to buy the raw materials and other needed utilities so that it can run the next operating cycle of the business process. The survival and growth of the business firm, to a large extent, depends on what the firm pays for its fixed costs and what contribution it generates after meeting all the expenses. Apportioning of the fixed costs incurred by the firm in starting a business depends on the volume of its operations. A lower volume of products puts a heavy burden on each unit produced. A larger volume of operations reduces the cost per unit. The total variable cost, which varies with the volume produced, may also reduce, as a consequence of the Experience Curve Effect variable cost, which varies with the volume produced, may also reduce, as a consequence of the Experience Curve Effect

Relative Cost Advantage and Competitive Strategy

Bhattacharyya and Venkataraman have commented on successes of Modis in Tyre industry, Nirma in detergent industry and Hero in cycles, based mostly on relative cost advantages. Modis initially entered only into the largest product segment, i.e. truck tyres and aimed at dominant market share. Their latest technology helped them. They initially priced their products lower than industry leaders, and offered “good value for money” to truck operators. Subsequently they matched the market leaders’ price and displaced by capturing higher market share Nirma has used relative cost advantages in three areas: production, distribution and promotion. By adopting semi-manual production process and concentrating in the North and West Zone urban markets, and by cost effective distributor incentive schemes and spots on Vividh Bharti (initially), Nirma kept their costs low in three areas and offered a highly price competitive product. Hero cycles by dropping the irrelevant product attributes and by sub-contracting the production of parts to small units, it achieved cost advantages which helped the company in processing their products very competitively.

COST LEADERSHIP

The firms operating in this highly competitive environment are always on the move to become successful. To strive in this competitive environment the firms should have an edge over the competitors. To develop competitive advantage, the firms should produce good quality products at minimum costs etc. This means that the firms should provide high quality at low cost so that the customer gets the best value for the product he/she is buying. Therefore, it becomes necessary for the firms to have a strategic edge towards its competitors. One such competitive strategy is overall cost leadership, which aims at producing and delivering the product or service at a low cost relative to its competitors at the same time maintaining the quality. According to Porter, following are the prerequisites of cost leadership (Cherunilam, 2004):

1) Aggressive construction of efficient scale facilities;
2) Vigorous pursuit of cost reduction from experience;
3) Tight cost and overhead control;
4) Avoidance of marginal customer accounts;
5) Cost minimization.

According to Porter cost leadership is perhaps the clearest of the three generic or business level strategies (Bolten & McManus, 1999). To sustain the cost leadership throughout, the firm must be clear about its accomplishment through different elements of the value chain. Figure 7.3 shows a matrix of the three generic competitive strategies and their interrelationship given by Porter.

	COMPETITIVE ADVANTAGE Lower cost	COMPETITIVE ADVANTAGE Differentiation
COMPETITIVE SCOPE: Broad Target	1) Cost Leadership	2) Differentiation
COMPETITIVE SCOPE: Narrow Target	3A) Cost Focus	3B) Focused Differentiation

Figure 7.3: Three Generic Competitive Strategies

The low-cost leadership strategy at times enables the firm to defend itself against each of five competitive forces. If we see the concept of cost-leadership in the Indian context, we find that it had worked wonders with industries like Reliance, Ranbaxy, Arvind Mills etc.

A cost leader, however, cannot ignore the bases of differentiation (Porter, 1985).

Q12- How an organisation Expansion through Integration? (v v v v v imp)

Ans – Expansion through Integration

In contrast to the intensive growth, integration strategy involves expanding externally by combining with other firms. Combination involves association and integration among different firms and is essentially driven by need for survival and also for growth by building synergies. Combination of firms may take the merger or consolidation route. Merger implies a combination of two or more concerns into one final entity. The merged concerns go out of existence and their assets and liabilities are taken over by the acquiring company. A consolidation is a combination of two or more business units to form an entirely new company. All the original business entities cease to exist after the combination. Since mergers and consolidations involve the combination of two or more companies into a single company, the term merger is commonly used to refer to both forms of external growth. As is the case in all the strategies, acquisition is a choice a firm has made regarding how it intends to compete (Markides, 1999). Firms use integration to (1) increase market share, (2) avoid the costs of developing new products internally and bringing them to the market, (4) reduce the risk of entering new business, (5) speed up the process of entering the market, (6) become more diversified and (7) quite possibly to reduce the intensity of competition by taking over the competitor's business. The costs of integration include reduced flexibility as the organization is locked into specific products and technology, financial costs of acquiring another company and difficulties in integrating various operations. There are many forms of integration, but the two major ones are vertical and horizontal integration.

Vertical Integration: Vertical integration refers to the integration of firms involved in different stages of the supply chain. Thus, a vertically integrated firm has units operating in different stages of supply chain starting from raw material to delivery of final product to the end customer. An organization tries to gain control of its inputs (called backwards integration) or its outputs (called forward integration) or both. Vertical integration may take the form of backward or forward integration or both. The concept of vertical integration can be visualized using the value chain. Consider a firm whose products are made via an assembly process. Such a firm may consider backward integrating into intermediate manufacturing or forward integrating into distribution. Backward integration sometimes is referred to as upstream integration and forward integration as downstream integration. For instance, Nirma undertook backward integration by setting up plant to manufacture soda ash and linear alkyl benzene, both important inputs for detergents and washing soaps, to strengthen its hold in the lower-end detergents market. Forward integration refers to moving closer to the ultimate customer by increasing control over distribution activities. For example, a personal computer assembler could own a chain of retail stores from which it sells its machines (forward integration). Many firms in India such as DCM, Mafatlal and National Textile Corporation have set up their own retail distribution systems to have better control over their distribution activities.

Some companies expand vertically backwards and forward. Reliance Petrochemicals grew by leveraging backward and forward integration: it began with manufacturing of textiles and fibres, moved to polymers and other intermediates then went into the manufacture of fibres, then to petrochemicals and oil refining. In power, Reliance Energy wants to do the same thing and the catchphrase that for this vertical integration is ' from well-head to wall-socket'. Reliance Energy's strategy is to straddle the entire value chain in the power business. It plans to generate power by using the group's production of gas, transmit and distribute it to the domestic and industrial consumers, reaping the returns of not just generating power using its own gas but selling what it generates not as a bulk supplier but to the end user.

In essence, a firm seeks to grow through vertical integration by taking control of the business operations at various stages of the supply chain to gain advantage over its rivals. The record of vertical integration is mixed and hence, decisions should be taken after a comprehensive and careful consideration of all aspects of this form of integration. In most cases the initial investments may be very high and exiting an arrangement that does not prove beneficial may be hard. Vertical integration also requires an organization to develop additional product market and technology capabilities, which it may not currently possess. Factors conducive for vertical integration include (1) taxes and regulations on market transactions, (2) obstacles to the formulation and monitoring of contracts, (3) similarity between the vertically-related activities, (4) sufficient large production quantities so that the firm can benefit from economies of scale and (5) reluctance of other firms to make investments specific to the transaction. Vertical integration may not yield the desired benefit if, (1) the quantity required from a supplier is much less than the minimum efficient scale for producing the product. (2) the product is widely available commodity and its production cost decreases significantly as cumulative quantity increases, (3) the core competencies between the activities are very different, (4) the vertically adjacent activities are in very different types of industries (For example, manufacturing is very different from retailing.) and (5) the addition of the new activity places the firm in competition with another player with which it needs to cooperate. The firm then may be viewed as a competitor rather than a partner.

Firms integrate vertically to (1) reduce transportation costs if common ownership results in closer geographic proximity, (2) improve supply chain coordination, (3) capture upstream or downstream profit margins, (4) increase entry barriers to potential competitors, for example, if the firm can gain sole access to scarce resource, (5) gain access to downstream distribution channels that otherwise would be inaccessible, (6) facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest and (7) facilitate investment in highly specialized assets in which upstream or downstream players may be reluctant to invest.

The downside risks of an integration strategy to a company include (1) difficulty of effectively integrating the firms involved, (2) incorrect evaluation of target firm's value, (3) overestimating the potential for synergy between the companies involved, (4) creating a combination too large to control, (5) the huge financial burden that acquisition entails, (6) capacity balancing issues. (For instance, the firm may need to build excess upstream capacity to ensure that its downstream operations have sufficient supply under all demand conditions), (7) potentially higher costs due to low efficiencies resulting from lack of supplier competition, (8) decreased flexibility due to previous upstream or downstream investments, (however, that flexibility to coordinate vertically –related activities may increase.), (9) decreased ability of increase product variety if significant in-house development is required, and (10) developing new core competencies may compromise existing competencies.

There are alternatives to vertical integration that may provide some of the same benefits with fewer drawbacks. The following are a few of these alternatives for relationships between vertically related organizations.

- Long-term explicit contracts
- Franchise agreements
- Joint ventures
- Co-location of facilities
- Implicit contracts (relying on firm's reputation)

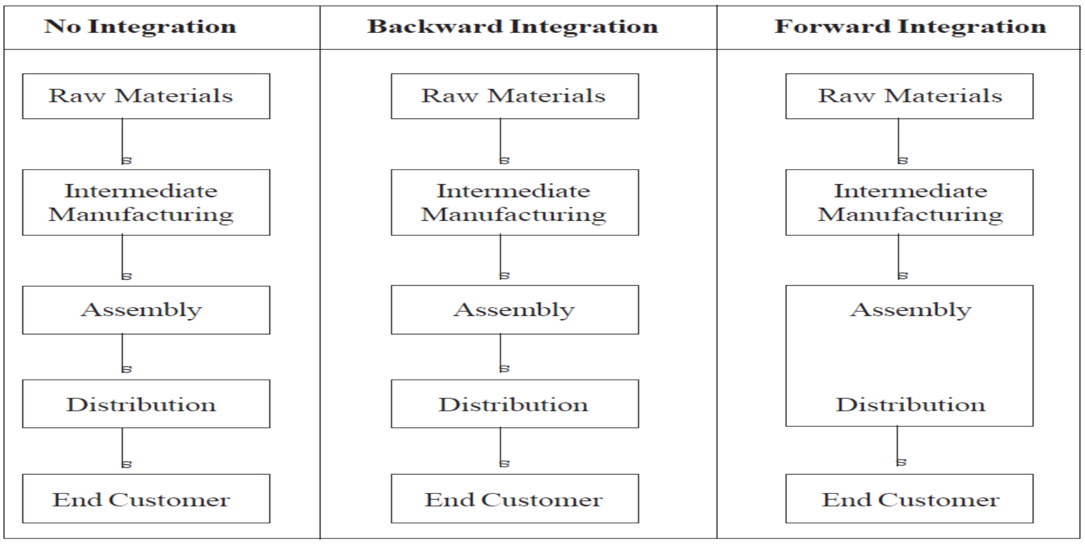


Figure 9.1: Backward and Forward Integration

Illustration: Digital Giants to Accelerate Vertical Integration

Samsung Electronics and LG Electronics plan to streamline production lines in cooperation with their affiliates to reduce factors of uncertainty in the procurement of components. The two South Korean giants seek to manufacture top-of-the-line products like cell phones and digital TVs in a self-sufficient fashion. LG Group will invest 30 trillion won by 2010 to develop certain electronic components that include system integrated chips, plasma displays and camera modules. Samsung Electronics already retains a strong portfolio, comprising Samsung Corning (display-specific glass), Samsung SDI (displays) and Samsung Electro-Mechanics (camera modules), and aims to further hone its push for vertical integration.

So-called vertical integration refers to the degree to which a company owns or controls its upstream suppliers, subcontractors or affiliates and its downstream buyers. The advantage of the strategy is the expansion of core competencies by reducing risks in the supply of components as well as the slashing of transportation costs. Some experts have said vertical integration is vital to the improvement of these two giant digital firms' competitiveness despite criticism that such expansion would increase the entry barriers for industry newcomers.

Source: Korean Times

ii) **Horizontal Combination / Integration:** The acquisition of additional business in the same line of business or at the same level of the value chain (combining with competitors) is referred to as horizontal integration. Horizontal growth can be achieved by internal expansion or by external expansion through mergers and acquisitions of firms offering similar products and services. A firm may diversify by growing horizontally into unrelated business. Integration of oil companies, Exxon and Mobil, is an example of horizontal integration. Aditya Birla Group's acquisition of L&T Cements from Reliance to increase its market dominance is an example of horizontal integration. This sort of integration is sought to reduce intensity of competition and also to build synergies.

Benefits of Horizontal Integration

The following are some benefits of horizontal integration:

- Economies of scale-achieved by selling more of the same product, for example, by geographic expansion.
- Economies of scope – achieved by sharing resources common to different products. Commonly referred to as 'synergies'.
- Increased bargaining power over suppliers and downstream channel members.
- Reduction in the cost of global operations made possible by operating plants in foreign markets.
- Synergy achieved by using the same brand name to promote multiple products.

Hazards of Horizontal Integration

Horizontal integration by acquisition of a competitor will increase a firm's market share. However, if the industry concentration increases significantly then anti-trust issues may arise. Aside from legal issues, another concern is whether the anticipated economic gains will materialize. Before expanding the scope of the firm through horizontal integration, management should be sure that the imagined benefits are real. Many blunders have been made by firms that broadened their horizontal scope to achieve synergies that did not exist, for example, computer hardware manufacturers who entered the software business on the premise that there were synergies between hardware and software. However, a connection between two products does not necessarily imply realizable economies of scope. Finally, even when the potential benefits of horizontal integration exist, they do not materialize spontaneously. There must be an explicit horizontal strategy in place. Such strategies generally do not arise from the bottom –up, but rather, must be formulated by corporate management.

Q13- Discuss IMPLEMENTATION OF STRATEGY ? (v v v v v imp)

Ans – Expansion through Integration

After the evaluation of the alternatives, the choice of strategy is made. This choice now needs to be implemented i.e. strategy is now put into action. This step of strategy process is the implementation step. This includes the activation of the strategic alternatives chosen. Strategy making and strategy implementation are two different things. Strategy making requires person with vision while strategy implementation requires a person with administrative ability. If the strategy made is not implemented properly then the objectives would be lost. Strategy implementation is as good as starting a new business. The stage requires looking at the problems and eliminating them. In strategy implementation, one has to pass through different steps:

- Project Implementation
- Procedural Implementation
- Resource Allocation
- Structural Implementation
- Functional Implementation
- Behavioural Implementation

Project implementation is a comprehensive plan of action from acquiring land to the installation of machinery within a time frame.

Procedural implementation takes place by following the "Law of the Land" i.e. the rules and regulation in terms of wastage cost, utility etc. It involves completing all those procedural formalities that have been prescribed by the governments both central and state. A procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished. Procedural implementation involves different steps. These steps vary from industry to industry. Also these may change as per the changes in the government policies. The major procedural requirements are:

- Licensing Requirements
- FEMA Requirements
- Foreign Collaboration Procedure
- Capital Issue Requirements
- Import and Export requirements
- Incentives and benefits

After procedural implementation thire comes **resource allocation**. The organization has to allocate resource both inside the company and outside the company. It has to make decisions regarding short term and long term allocation. The problems associated with resource allocation is the problem involved in the process. The problems emerge because:

- Resources are limited.
- There are competing organizational units with each trying to have the major portion.
- Organization's past commitment.

The **structural implementation** of strategy involves designing of the organization structure and interlinking various units and sub units of the organization. It involves issues like

- How the work of the organization will be divided?
- How will the work be assigned among various positions, groups, department, divisions, etc.?
- The coordination among these for achivement of organizational objectives.

There are basically two aspects:

- Differentiation and
- Integration

Differentiation refers to, "the differences in cognitive and emotional orientations among managers in different functional departments."

Integration refers to, "the quality of the state of collaboration that are required to achieve unity of efforts in the organization."

The organization has to emphasize on both aspects and therefore, it must design organization structure and provide systems for integration and coordination among organization's parts and members.

Functional implementation deals with the development of policies and plans in different areas of functions which an organization undertakes. The major functions of the organization include:

- Production
- Marketing
- Finance
- Personnel

Each and every function makes its own policies and plans in tune with the whole organization's strategy and then implements to fulfill the objectives. For example, the production function may involve decisions relating to size and location of plants, technology to be used, cost factor, production capacity, quality of the product, research and development etc. Similarly marketing function may include the decisions relating to type of products, price of products, product distribution and product promotion.

The financial function deals with decisions like sources of funds, usage of funds and management of earnings. Likewise, the major consideration in personnel policies include recruitment of right personnel, development of personnel, motivation system, retaining personnel, personnel mobility, industrial relations etc.

Behavioural implementation deals with those aspects of strategy implementation that have impact on behaviour of people in the organizations. Since human resources form an integral part of the organization, their activities and behaviour need to be directed in a certain way. Any departure may lead to the failure of strategy. The five issues in this context relevant to strategy implementation are:

- Leadership
- Organization Culture
- Values and Ethics
- Corporate Governance, and
- Organizational Politics

Q14- Discuss the concept of retrenchment strategy? (v v v v v imp)

Ans – Retrenchment is a short-run renewal strategy designed to overcome organizational weaknesses that are contributing to deteriorating performance. It is meant to replenish and revitalize the organizational resources and capabilities so that the organization can regain its competitiveness. Retrenchment may be thought as a minor surgery to correct a problem. Managers often try a minimal treatment first—cost cutting or a small layoff—hoping that nothing more painful will be needed to turn the organization around. When performance measures reveal a more serious situation, more drastic action must be taken to restore performance. Retrenchment strategies call for two primary actions: cost cutting and restructuring. One or both of these tools will be employed more extensively in turnaround situations, because the problems are deeper there than in retrenchment situations. Retrenchment strategy alternatives include shrinking selectively, extracting cash for investment in other businesses, and divestment. While these strategies result in generating cash, they differ in terms of their intentions. Divestment of the whole business is an "end game" strategy and it may be done via selling or liquidation of business. Under the strategy of extraction of cash for investment in other business, cash is generated from the troubled business mainly via budget and cost contraction. In both strategies, the intention of management is to quit the troubled business.

In the shrinking selectively strategy (SSS), cash is generated via downsizing (contraction of size or divesting some operations. The strategy of shrinking selectively involves retrieving the value of investments in some parts of the market while reinvesting in others because in some niches' demand will continue to be grow while in others the demand shrivels. The objective is to capture the desirable niches. Shrinking selectively as a repositioning strategy (i.e., matching market niche with distinctive competence) often results in renewed strength. There are three major variants of retrenchment strategy which are:

- Turnaround strategy
- Survival strategy
- Liquidation strategy.

Turnaround strategy (sometime in short note)

A turnaround situation exists when an organization encounters multiple years of declining financial performance subsequent to a period of prosperity. Turnaround situations are caused by combinations of external and internal factors and may be the result of years of gradual slowdown or months of precipitous financial decline. The strategic causes of performance downturns include increased competition, raw material shortages, and decreased profit margins, while operating problems include strikes and labour problems, excess plant capacity and depressed price levels. The immediacy of the resulting threat to organization survival posed by the turnaround situation is known as situation .Low levels of severity are indicated by declines in sales or income margins, while extremely high severity would be signaled by imminent bankruptcy. The recognition of a relationship between cause and response is imperative for a turnaround process and hence, the importance of properly assessing the cause of the turnaround situation so that it could be the focus of the recovery response is very important.

The Turnaround Process

The Turnaround Process begins with a depiction of external and internal factors as causes of an organization's performance downturn. If these factors continue to detrimentally impact the organization, its financial health is threatened. Unchecked financial decline places the organization in a turnaround situation. A turnaround situation represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions. A turnaround is typically accomplished through a two stage process. The initial stage is focused on the primary objectives of survival and achievement of a positive cash flow. The means to achieve this objective involves an emergency plan to halt the organization's financial hemorrhage and a stabilization plan to streamline and improve core operations. In other words, it involves the classic retrenchment activities i.e. liquidation, divestment, product elimination, and downsizing the workforce.

Retrenchment is an integral component of turnaround strategy. The critical role of retrenchment in providing a stable base from which to launch a recovery phase of the turnaround process is well established. Many organizations that have achieved a reversal of financial or competitive decline inevitably refer to the presence of retrenchment as a precursor or prelude to the implementation of a successful recovery strategy. Consequently, retrenchment may be necessary to stabilize the situation by securing or providing slack regardless of the subsequent recovery strategy that is chosen. The second phase involves a return-to-growth or recovery stage and the turnaround process shifts away from retrenchment and move towards growth and development and growth in market share. The means employed for achieving these objectives are acquisitions, new products, new markets, and increased market penetration. The importance of the second stage in the turnaround situation is underscored by the fact that primary causes of the turnaround situation have been associated with this phase of the turnaround process- the recovery response. Recovery is said to have been achieved when economic measures indicate that the organization has regained its pre-downturn levels of performance. Between these two stages, a clear strategy is needed for an organization. As the financial decline stops, the organization must decide whether it will pursue recovery in its retrenchment- reduced form through a scaled-back version of its preexisting strategy, or whether it will shift to a return-to-growth stage. It is at this point that the ultimate direction of the turnaround strategy becomes clear. Essentially, the organization must choose either to continue to pursue retrenchment as its dominant strategy or to couple the retrenchment stage with a new recovery strategy that emphasizes growth. The degree and duration of the retrenchment phase should be based on the organization's financial health.

Survival strategy

When the organization is on the verge of extinction, it can follow several routes for renewing the fortunes of the organization. These are discussed in the following sections.

Divestment: An organization divests when it sells a business unit to another organization that will continue to operate it.

Spin-Off: In a spin-off, an organization sets up a business unit as a separate business through a distribution of stock or a cash deal. This is one way to allow a new management team to try to do better with a business unit that is a poor or mediocre performer.

Restructuring the Business Operations: The organization tries to survive by restructuring its management team, financial reengineering or overall business reengineering. Business reengineering involves throwing aside all old business processes and starting from scratch to design more efficient processes. This may cut costs and assist a turnaround situation. This is much easier to visualize in a manufacturing process, where each step of assembly is examined for improvement or elimination. It would be foolish to find more efficient ways to perform processes that should be abandoned and hence, reengineering is strongly suggested in such cases.

Liquidation strategy

Liquidation is the final resort for a declining organization. This is the ultimate stage in the process of renewing organization. Sometimes a business unit or a whole organization becomes so weak that the owners cannot find an interested buyer. A simple shutdown will prevent owners from throwing good money after bad once it is clear that there is no future for the business. In such a situation, liquidation is the best option. Bankruptcy is a last resort when the business fails financially. The court will liquidate its assets. The proceeds will be used to pay off the organization's outstanding debts. Some organizations file for bankruptcy instead of liquidating. Under this option, the organization reorganizes its operations while being protected from its creditors. If the organization can emerge from bankruptcy, it pays off its creditors as best as it can.

Q15- Discuss the different diversification strategies? (v v v v v imp)

Ans – Diversification- Diversification involves moving into new lines of business. When an industry consolidates and becomes mature, most of the organizations in that industry would reach the limits of growth using vertical and horizontal growth strategies. If they want to continue growing any further the only option available to them is diversification by expanding their operations into a different industry. Diversification strategies also apply to the more general case of spreading market risks; adding products to the existing lines of business can be viewed as analogous to an investor who invests in multiple stocks to "spread the risks". Diversification into other lines of business can especially make sense when the organization faces uncertain conditions in its core product-market domain.

Diversification of an organization can take the form of concentric and conglomerate diversification. Concentric (Related) diversification is appropriate when an organization has a strong competitive position but industry attractiveness is low. Conglomerate (unrelated) diversification is an appropriate strategy when current industry is unattractive and that the organization lacks exceptional and outstanding capabilities or skills in related products or services. Generally, related diversification strategies have been demonstrated to achieve higher value creation (profitability and stock value) than unrelated diversification strategies (conglomerates). The interpretation of this finding is that there must be some advantage achieved through shared resources, experience, competencies, technologies, or other value-creating factors. This is the so called synergy effect of diversification i.e., 'the whole is greater than the sum of its parts'. There are two types of diversification which are as follows:

- Related diversification (concentric diversification)
- Unrelated diversification (conglomerate diversification)

Related diversification (concentric diversification)

In this alternative, an organization expands into a related industry, one having synergy with the organization's existing lines of business, creating a situation in which the existing and new lines of business share and gain special advantages from commonalities such as technology, customers, distribution, location, product or manufacturing similarities, and government access. In essence, in concentric diversification, the new industry is related in some way to the current one. This is often an appropriate corporate strategy when an organization has a strong competitive position and distinctive competencies, but its existing industry is not very attractive. Thus, an organization is said to have pursued concentric diversification strategy when it enters into new product or service area belonging to different industry category but the new product or service is similar to the existing one with respect to technology or production or marketing channels or customers.

Unrelated diversification (conglomerate diversification)

Conglomerate diversification is a growth strategy in which an organization seeks to grow by adding entirely unrelated products and markets to its existing business. An organization that consists of a grouping of businesses from unrelated streams is called a conglomerate. In conglomerate diversification, an organization generally introduces new products using different technologies in new markets. A conglomerate consists of a number of product divisions, which sell different products, principally to their own markets rather than to each other. Conglomerates diversify their business risk through profit gained from profit centers in various lines of business.

Rationale for diversification

Under strict assumptions of an efficient market theory, there is no convincing rationale for one organization to acquire another, especially less efficient or unrelated businesses. Since the markets are imperfect and do not follow the norms of efficient market theory, organizations do diversify for several reasons given below:

Economies of Scale and Scope (Synergy): The merger of two organizations producing similar products should allow the combined organizations to pool resources and attain lower operating costs. The saving may come from reduced overheads or the ability to spread a larger amount of production over lower (consolidated) fixed costs. There may also be differential management capabilities. Efficiencies can also be gained through pooled financial resources or simply through pooled risk.

Widen Market Base and Enhance Market Power: Large number of collaborations and acquisitions are aimed at expanding the market for the organization's products. Mergers and acquisitions can increase an organization's market share when both organizations are in the same business. But, market share does not necessarily translate to higher profits or greater value for owners unless the merger substantially reduces the inter-organization rivalry in the industry.

Profit Stability: Acquisition of new business can reduce variations in corporate profits by expanding the organization's lines of business. This typically occurs when the core business depends on sales that are seasonal or cyclical. A large number of organizations pursue diversification strategy just to avoid instability in sales and profits which can result from events such as cyclical and seasonal shifts in demand, changes in the life cycles and other destabilizing forces in the micro and macro environment.

Improve Financial Performance: Large organizations generate cash that can be invested in other ventures. The organization acts as a banker of an internal capital market. The core business sustains itself on its moneymaking ventures, and uses this cash flow to create new ventures that generate additional profits. An organization may also be tempted to exploit diversification opportunities because it has liquid resources far in excess of the total expansion needs.

Growth: Diversification is basically a way to grow. Indeed, managers often cite growth as the principle reason for diversification. The most important factor that motivates management to diversify is to achieve higher growth rate than possible with intensification strategy. If the management feels that the existing products and markets do not have the potential to deliver expected growth, the only alternative they have is to diversify into new territories. Unlike organic growth, which is slow, an acquisition or merger (inorganic) can deliver the results rather quickly since resources, skills, other factors essential for faster growth are immediately available.

Counter Competitive Threats: Organizations are driven at times towards external diversification through merger by competitive pressures. Such a strategic move is expected to counter the competitive threats by reducing the intensity of competition.

Access to Latest Technology: Many Indian organizations enter into strategic alliances with foreign organizations to gain access to the latest technologies without spending huge amount of money on R&D.

Regulatory Factors: A large number of organizations have diversified their operations geographically to exploit opportunities in different regions and nations and also to take advantage of the incentives being offered by the various governments to attract investment. Many organizations enter other nations to avoid restrictions placed by the regulators in their host nation.

Q16- the importance of ethics and values? (v v v v v imp)

Ans – It is not easy to build a strong corporate culture in any organization. A strong culture is based on strong ethics and values. This is very important for the success of the organization in the long-run. It is very easy to adopt short-cut methods to reach the top but the downfall also comes at the same rate. Ethics and values ensure that the organization does not adopt short-cut methods to achieve success; instead it stresses on the concept of sustained success. Every organization has its own code of ethics and standards in a written form.

The code of ethics normally contains the following points:

- Honesty
- Fairness in practices of the organization-Disclosing the inside information;
- Acquiring and using outside information-Disclosure of outside activities by the employer to the employee;
- Using organization assets; etc.

The value statements normally include

- Value of customers;
- Commitment towards the business practices like quality etc.;
- Duty towards shareholders, suppliers etc.;
- Following the environmental protection norms etc.

These were the few areas which were covered. There can be more such points, which can be discussed under the head value statements and code of ethics. Each organization has its own set of value statements and code of ethics.

FIRST PRIORITY MOST IMPORTANT SHORT NOTES QUESTIONS

Q1- Discuss THE CRITICAL SUCCESS FACTOR (CSF)? (v v v v v imp)
Ans – THE CRITICAL SUCCESS FACTOR (CSF)
Critical success factors are those which contribute to organization's success in a competitive environment and therefore the organization needs to improve on them since poor results may lead to declining performance. Organizations depending on the environment they operate in and their own internal conditions can identify relevant critical success factors. However, literature on strategy suggests few general sources Internal Analysis of critical success factors that have been identified based on empirical research. They are as follows
Industry Characteristics: Industry specific critical success factors are factors critical for the performance of an industry. For example in hospitality industry excellent and customized service, wide presence and an excellent booking and reservation system is critical. Similarly for an airline industry fuel efficiency, load factors and an excellent reservation system are critical.
Competitive Position: Critical success factors for a firm may also be determined by its relative position with respect to its competitors. In some instances, industry is dominated by few large players and their actions lead to determining the critical success factors for the industry which smaller players have to ensure for their success. For example, for the pathological laboratory centers earlier the CSF was authentic, hygienic and scientific testing facilities until few big players added service features like door to door sample collection or home delivery of reports. Very soon approachability and ease became the additional CSFs for the players
General environment viewed from any of the dimensions may determine the CSFs. Most simply put in years of drought, availability of water is at premium and having access to assured source of water can become the critical success factor for many industries like tanneries etc. For the same industry considering environmental norms, adhering to anti pollution standards becomes critical success factor. Organizational Developments – On many occasions developments within the organizations, force internal considerations to become temporary critical success factors.
Q2- Discuss THE VALUE CHAIN FRAMEWORK? (v v v v v imp)
Ans – THE VALUE CHAIN FRAMEWORK

This is the other framework most commonly used to guide analysis of any firm's strengths and weaknesses. In this framework, any business is seen as a number of linked activities, each producing value for the customer. By creating additional value, the firm may charge more or is able to deliver same value at a lower cost, either of this leading to a higher profit margin. This ultimately adds to the organization's financial performance

The value chain framework as shown in Figure 6.2 is a typical value chain within an organization. Using this framework, it is possible to analyze the organization's contributions of individual activities in a business and how they add up to the overall level of customer value, the firm produces. It is divided into two parts i.e. primary activities and support activities. The primary activities constitute of the following:

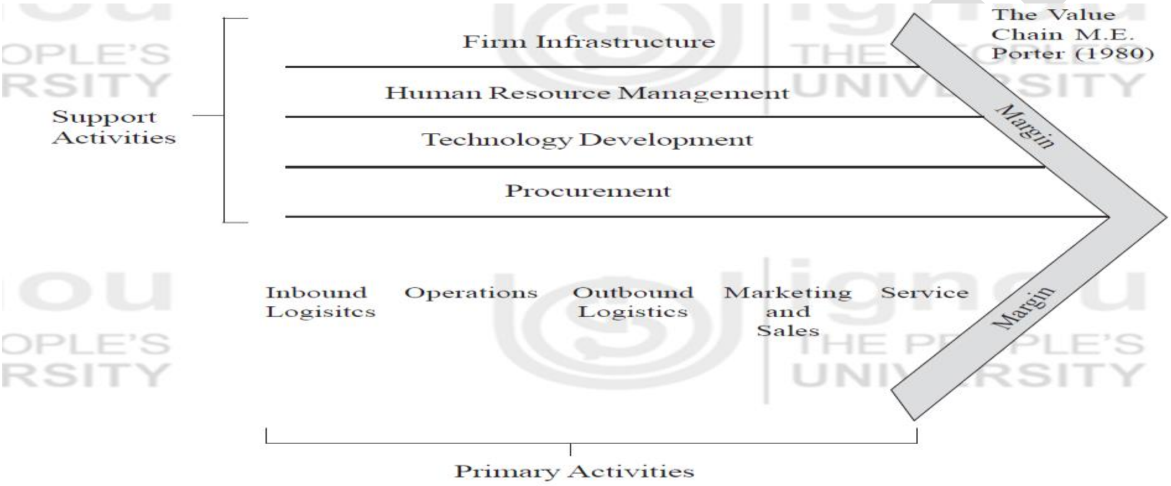


Figure 6.2: The Value Chain Framework

a) **Inbound Logistics** are activities concerned with receiving, storing and distributing the inputs to the product or service. They include materials handling, stock control, transport etc.

b) **Operations Transform** these various inputs into the final product or service – machining, packaging, assembly testing etc.

c) **Outbound Logistics** collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transportation etc. In the case of services they may be more concerned with arrangements for bringing customers to the service if it is a fixed location (e.g. entertainment show).

d) **Marketing and Sales** makes consumers/ users aware of the product or service so that they are able to purchase it. This includes sales administration, advertising, selling and so on.

e) **Services** activities helps improving the effectiveness or efficiency of primary activities.

Each of the groups of primary activities is linked to support activities which are as follows:

a) **Procurement:** This is a process for acquiring the various resource inputs to the primary activities and this is present in many parts of the organization.

b) **Technology Development:** There are key technologies attached to different activities which may be directly linked with the product or with processes or with resource inputs.

c) **Human Resource Management:** This is an area involved with recruiting, managing, training, developing and rewarding people within the organization. This categorization of the activities as primary or support may be found true for organizations in general, however it is always better to have one's own judgment in identifying activities for particular firms in consideration.

Exhibit 1 shows some of the guiding points for evaluating primary activities.

Exhibit 1: Select guiding points for evaluating primary activities

a) **Inbound Logistics**
- Soundness of material and inventory control systems
- Efficiency of raw material warehousing activities

b) **Operations**
- Productivity of equipment compared to that of key competitors
- Appropriate automation of production processes
- Effectiveness of control systems to improve quality and reduce cost
- Efficiency of plant layout and work flow design

c) **Outbound Logistics**
- Timeliness and efficiency of delivery of finished goods and services
- Efficiency of finished goods warehousing activities

d) **Marketing and Sales**
- Effectiveness of market research to identify customer segments and needs
- Innovation in sales promotion and advertising
- Evaluation of alternate distribution channels
- Motivation and competence of sales force
- Development of an image of quality and a favourite reputation
- Extent of market dominance within the market segment or overall market

e) **Customer Service**
- Means to solicit customer input for product improvements
- Promptness of attention to customer complaints
- Appropriateness of warranty and guarantee policies
- Ability to provide replacement parts and repair services

Exhibit 2 shows some guiding points for evaluating support activities.

Exhibit 2: Select guiding points for evaluating Support activities

Firm Infrastructure
- Coordination and integration
- Level of Information system
- Quality of planning system
- Timely and accurate information on environment

Human Resource Management
- Effectiveness of recruitment, training procedures
- Appropriateness of reward systems
- Relationship with trade unions
- Level of employee motivation and job satisfaction

Technology Development
- Success of R & D environment
- Quality of laboratories and other facilities
- Ability of work environment
- Qualification and experience of technical hands

Procurement
- Sources of raw material – time, cost, quality
- Procedures for procurements
- Relationships with reliable suppliers

With the indicative guiding points, you must have realized how with the Value Chain Framework, organizations can use these indicators as a reference point in order to improve its overall ability to create value. Miller suggests that the value chain framework can also be useful in a broader sense while deciding in what and where to specialize in the value activities from product design to the delivery of the final product or service to the final consumer.

Q3- Discuss Mother-Daughter Type Structure? (v v v v v imp)

Ans – Mother-Daughter Type Structure

The relationship between the corporate office and the subsidiaries may be informal as it happened in the early stage of development with most of the multi-national companies of Europe. The chief executive deals with them on individual basis. The various operating units (subsidiaries) may be staffed largely by relatives of the founder. Thus the whole company is a family affair. The highly personalised relationship between the Chief Executive Officer (CEO) of the parent company and the managing directors of the foreign subsidiaries has come to be known as motherdaughter type of organization. This is shown in Figure . This type of organization allows considerable discretion to the chiefs of the national operating units. Control from the centre is mainly exercised through personal visits by the chief executive officer to the various units. The focus of control is often on financial performance.

The limits of the mother-daughter structure usually surface when multinational companies begin to expand geographically. The CEO's personal knowledge of diverse countries of say Asia, Africa and the Middle-East can only be superficial. This is why, perhaps European multinationals such as Philips, Ciba Geigy, and Nestle led the move away from the mother daughter organization towards more global structures

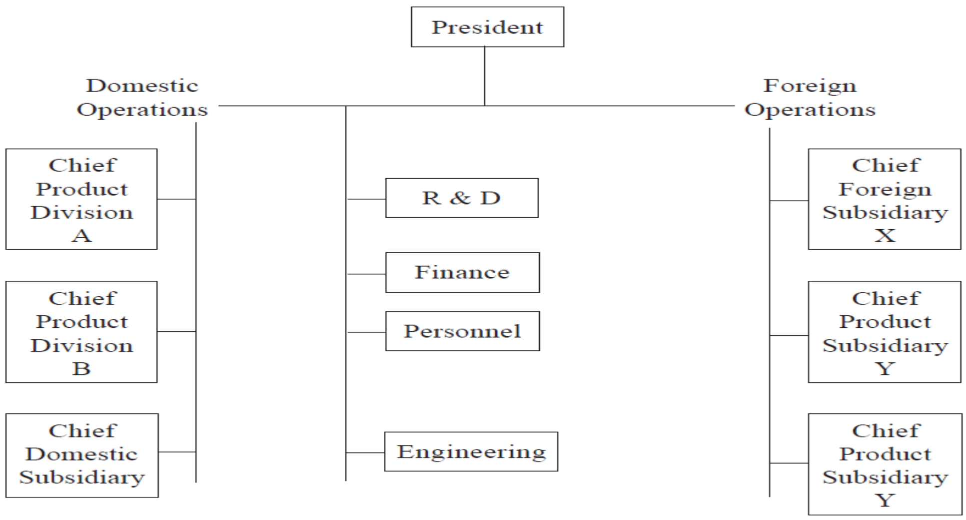


Figure 13.3: Mother-Daughter Structure

Q4- Discuss Porter's Perspective? (v v v v v imp)

Ans – Porter's Perspective

Porter has enunciated three generic strategies: Overall Cost Leadership, Differentiation and Focus. According to him the successful implementation of the three generic strategies requires not only different resources and skills but also imply different organizational arrangements, control procedures and inventive systems. These strategies are discussed in block-4. Let us briefly recapitulate these three generic strategies.

Overall cost leadership (common in 1970s in the USA) is achieved through a set of functional policies culminating into what is popularly known as the Experience Curve Effect. This strategy requies construction of efficient scale facilities, vigorous pursuits of cost reduction from experience, tight cost and overhead control and cost minimisation in areas like R&D, sales force, advertising and so on. A great deal of managerial attention to cost control is necessary to achieve the aims.

The differentiation strategy implies offering a product or service by the firm which is perceived in the industry as being unique. Differentiation can be approached in many ways (one or more at the same time); product design features, brand image, technology, customer services, dealer network and other dimensions.

The focus strategy means concentrating on a particular buyer group, segment of product lines, or geographic market.

As with differentiation, focus may take many forms. Whereas the 'low cost' and 'differentiation' strategies aim at achieving their objectives industry-wise, the focus strategy is built around serving a particular target very well. All functional policies are geared in that direction. This strategy rests on the premise that the firm is able to serve its narrow strategic target more effectively and efficiently than those competitors who are engaged in broader activities. We now turn our attention to the organizational requirements for each strategy. Some common implications of the generic strategies in terms of skills and resources and organizational requirements are presented in Table 13.1 which are self-explanatory.

Table 13.1 : Organizational Requirements for Different Generic Strategies

Generic Strategy	*Commonly Required Skills and Resources*	*Common Organizational Requirements*
Overall Cost Leadership	Sustained capital investment and access to capital Process engineering skills Intense supervision of labour Products designed for ease in manufacture Low-cost distribution system	Tight Cost Control Frequent, detailed control reports Structured organization and responsibilities Incentives based on meeting strict quantitative targets
Differentiation	Strong marketing abilities Product engineering Creative flair Strong capability in basic research Corporate reputation for quality or technological leadership Long tradition in the industry or unique combination of skills drawn from other businesses Strong cooperation from channels	Strong Coordination among functions in R & D, product development, and marketing Subjective measurement and incentives instead of quantitative measures Amenities to attract highly skilled labour, scientists, or creative people
Focus	Combination of the above policies directed at the particular strategic target	Combination of the above policies directed at the particular strategic target

Source: Porter, Michael E., p. 40-41.

Industry Maturity and Organizational Arrangements: According to Porter, not only different organizational arrangements, leadership and motivation systems are needed for different generic strategies, different organizational structures and systems are also needed as the industry **transitions to maturity**. Some suitable adjustments must take place in the area of control and motivation system as well. As the industry matures, more attention to costs, customer service and true marketing (as opposed to selling) may be required. More attention to refining old products rather than introducing new ones may be necessary. The less "creativity" and more attention to detail and pragmatism is often what is needed in the mature business. These shifts in competitive focus obviously require changes in the organizational structures and systems to support them. Systems designed to highlight and control different areas of business are necessary. The various elements of the structural and system requirements of mature business are tabulated in Exhibit 2.

In short, it may be stated that there has to be more emphasis on formal arrangement than on the informal ones as hitherto. The competitive shifts (e.g., aggressive marketing, price competition) and new organizational requirements may be presented to by people within the organization who till the other day found pride in pioneering

high quality products. Sacrificing quality for costs and close monitoring of costs may be resisted. Furthermore, new reporting requirements, new controls, new organizational relationships and other changes may sometimes be seen as a loss in personal autonomy and as a threat. A company thererore must be prepared to re-educate and remotivate personnels at all levels as it enters the maturity stage.

Q5- Discuss Peters and Waterman's Perspective? (v v v v v imp)

Ans – Peters and Waterman's Perspective

Large companies tend to be complex. Unfortunately, many of such companies, according to Peters and Waterman, respond to complexity by designing complex systems and structures rather than simple ones. A favourite candidate for the wrong kind of complex response is the matrix organization structure. For a multiproduct, multi-location and multi-market company, with several functional departments, a four dimensional matrix may be a normal choice. However, such a matrix is a "logical mess". The matrix is quite confusing: "people aren't sure to whom they should report for what. The most critical problem, it seems, is that in the name of "balance", everything is somehow hooked to everything else. The organization gets paralysed because the structure not only does not make priorities clear, it automatically dilutes priorities. In fact, it says to people down the line: "everything is important; pay equal attention to everything".

None of the excellently managed companies, according to the authors, had matrix structures, except for the project management companies like Boeing. Even early users of the matrix technique such as Boeing and NASA emphasised one key dimension of the organization structure to which they accorded clear-cut primacy, and this could be either product, or geography or function. How have the excellent companies avoided matrix forms? They have done so by sticking to simple forms. "Most of the excellent companies have a fairly stable, unchanging form—perhaps the product divisions— that provides the essential touchstone which everybody understands, and from which the complexities of day-to-day life can be approached."

Excellent companies are quite flexible in responding to fast changing conditions in the environment. They make better use of small divisions or other small units. "They can reorganise more flexibly, frequently, and fluidly. And they can make better use of temporary forms such as task forces and product centres" and other ad hoc devices. Most of the reorganization takes place around the edges. The fundamental form rarely changes that much. Product divisions are the building blocks in the structure of the excellent companies. A characteristic of structures in such companies is the shifting of people and even products or product lines among divisions on a regular basis and without acrimony.

The simple form is not limited to companies—specialized in creating niches for themselves. Other companies such as HP, Emerson, Digital, Dana and 3M have also simple structures. Regardless of industry or apparent scale needs, virtually all the companies pushed authority far down the line and tried to preserve or maximise practical autonomy for a large number of people. Simplicity in basic structural arrangement actually facilitated organizational flexibility. Clean staff at the corporate level is a characteristic feature of excellent companies. And whatever staff these companies have tends to be out in the field solving problems rather than being stayput in the home office. Some increasing examples are given below

- Emerson Electric has 54,000 employees, with fewer than 100 in the corporate headquarters.
- Dana employs 35,000 employees and has cut its corporate staff from about 500 in 1970 to around 100 by 1982.
- Schlimberger, a $ 6 million diversified oil service company, runs its world wide empire wth a corporate staff of 90.

That "less is more" also holds true for some of the top performing smaller companies. "ROLM, for instance, manages a $ 200 million business with about 15 people in corporate headquarters. "Virtually every function in the excellent companies is radically decentralized down to the divisional level at least." Though strategic planning is regarded as a corporate function, yet, some companies such as 3-M, HP, J & J have no planners at the corporate level. Fluor runs its $ 6 million operations with three corporate planners.

In some excellent companies the research staffers come in from line operations and then go back after sometime. "At IBM, management adheres strictly to the rule of three year staff rotation. Few staff jobs are manned by career staffers". The others are manned by line officers. "If you know you are going to become a user within thirty six months, you are not likely to invent an overbearing bureaucracy during your brief sojourn on the other side of the fence."

A structural form for the future should respond to three prime needs or properties: a

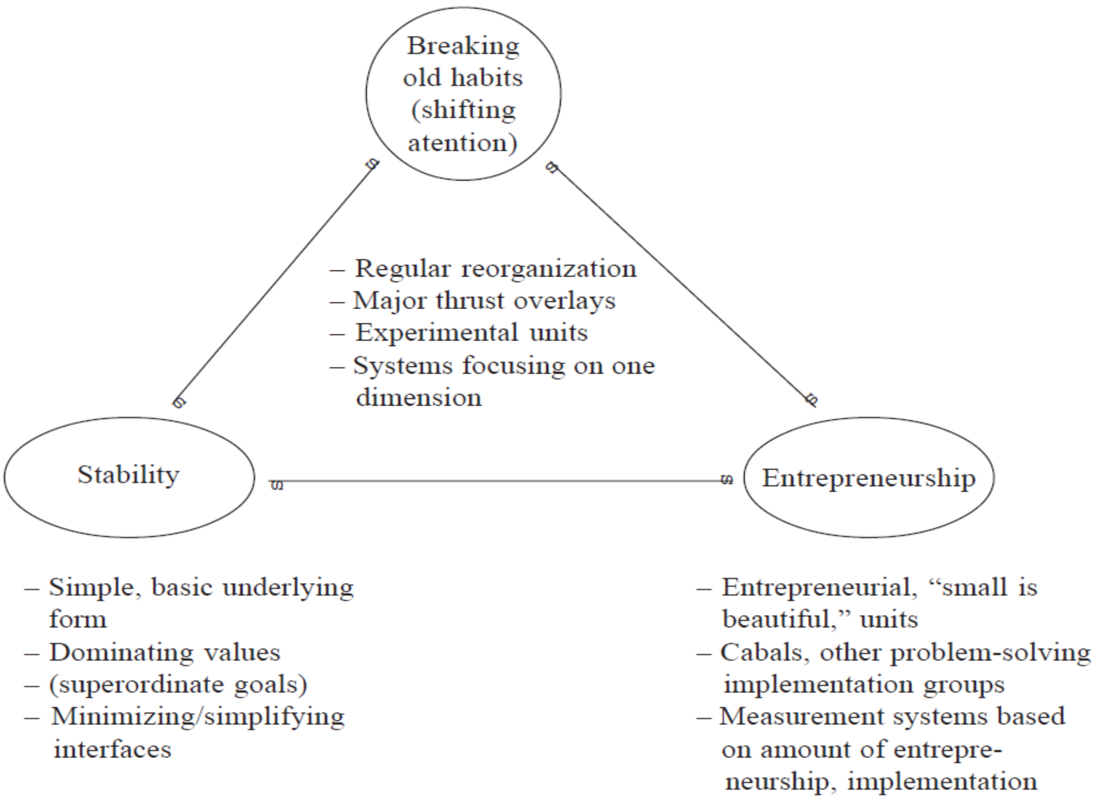


Figure 13.11: The Three Pillars of the "Structure of the Eighties"

need for efficiency around the basics (stability pillar); need for regular innovation (entrepreneurial pillar), and a need to avoid calcification by ensuring at least modest responsiveness to major threates (habit breaking pillar). The structural form should be based on these three pillars, each one of which responds to one of the three basic needs. The idea about the structural form for the future is depicted in Figure 13.11. The authors further say that an effective structure should have loose-tight property simultaneously. It is in essence the co-existence of firm's central direction and maximum individual autonomy which the author calls "**having one's cake and eating it too**." Organizations that live by the loose-tight principle do so through "Faith", through value systems. Beleif in customer, belief in granting autonomy, belief in quality are some of the values which great managers have demonstrated in their lives.

Q6- Discuss STRATEGIC CONTROL PROCESS? (v v v v v imp)

Ans – STRATEGIC CONTROL PROCESS

The evaluation of the strategy of an organization can be done qualitatively as well as quantitatively. The quantitative evaluation is based on data and is possible through post facto analysis to detect whether the content of strategy is working or has worked. However, qualitative evaluation can also be done by addressing the question: Will it work? The qualitative evaluation can thus be done before activating plans of change.

The qualitative evaluation and control of strategy is a real time process. The performance of strategy is monitored and corrective actions are taken. The basic aim of any organization is to achieve its goals. But to achieve the goals, the organization faces lots of hurdles. To overcome these hurdles, it is necessary for any organization to have a sound **stratetgic** control process. The word meaning of 'control' itself means 'to regulate' or 'to clieck'. This means that the top management needs to keep check on how well the strategy is being implemented to achieve the objectives of the organization. For example, if the business is not giving results as expected, it may be necessary to increase promotional efforts, or revise the product policy, or as **a** last resort, the firm may pull out of a particular business.

The strategic control process is closely related to strategic planning process. Figure 15.1 represents the relationship between strategic planning and strategic control process. Tlie process consists of three phases, which are as follows: 1) Evaluation criteria; 2) Performance evaluation; and 3) Feedback.

The first phase i.e., tlie evaluation criteria consists of selecting ltey success factors, developing measures and setting standards for the same and collecting information about actual performance. As discussed, the evaluation criteria can be qualitative as well as quantitative. In this unit, we will focus on the quantitative aspect. The qualitative aspect would be discussecl in unit 16.

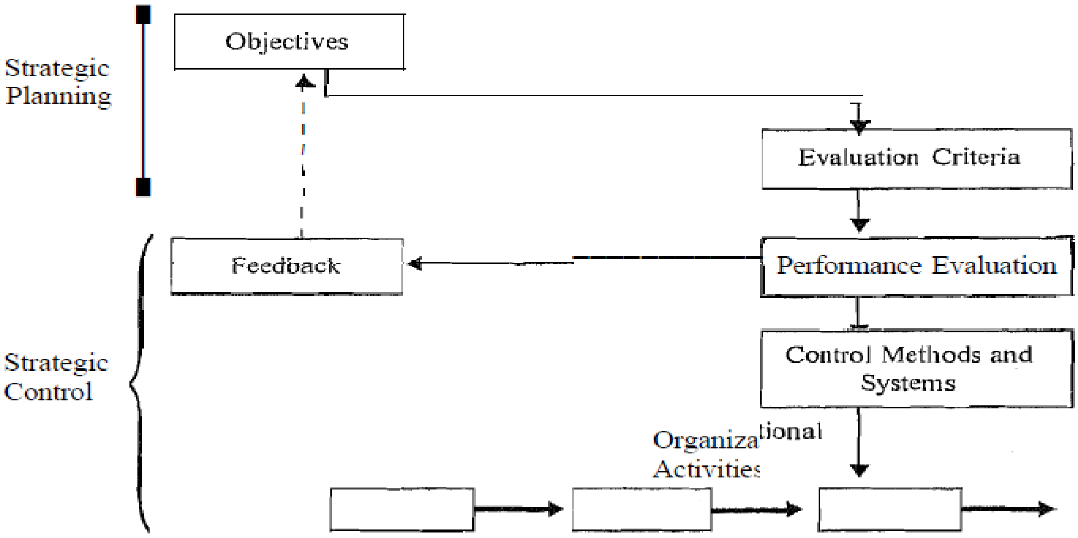


Figure 16.1 : Relationship between Strategic Planning and Strategic Control Process

Source: Adapted from Byars L. Lloyd, Strategic Management, Planning and Implementation Concepts and Cases, 1987.

Quantitative criteria for evaluation : This is important for measuring the organizational performance whereby the actual results are compared with the expected results. Usually the organizations use financial ratios as quantitative criteria for evaluating strategies. These are used due to the following reasons:

1) To compare the performance of the organization over different time periods;
2) To compare the performance of the organization with its competitors in the industry;
3) To compare the organizations' performance to industry averages.

Some of the major financial ratios which can be used as criteria for evaluation of strategy are:

1) Return on investment
2) Return on equity
3) Profit margin
4) Market share
5) Debt to equity
6) Earnings per share
7) Sales growth
8) Asset growth

These ratios are used by different organizations to measure the performance of the organization. Here, one thing is to be noted that the qualitative criteria are related more to short-term objectives than the long-term ones. This is the reason why qualitative criteria are very important in evaluating strategies. Therefore, to evaluate strategies certain qualitative questions should also be taken into consideration. These questions can be:

- Whether the strategy is internally consistent or not?
- Whether it is appropriate considering the available resources or not?
- How is the firm balancing its investments between high-risk and low-risk prospects?

This shows that answers to all these qualitative questions is important to evaluate and control the strategy.

Q7 Discuss Hofer's Product/Market Evolution Matrix? (v v v v v imp)

Ans – Hofer's Product/Market Evolution Matrix

Charles Hofer has proposed a three-by-five matrix where businesses are plotted in terms of their product/market evolution and the comeptitive position. Relative sizes of industries are shown by circles wherein in the market share of the company is shaded as shown in Figure 16.6.

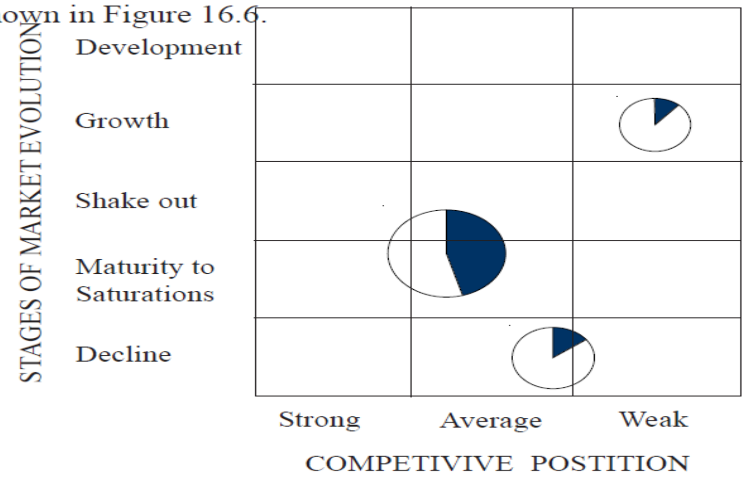


Figure 16.6: Hofer's Market Evolution

- A business in the Developmet or Growth stage has a potential to be a Star. If the market share is large in these growth oriented stages, more resources must be invested to develop competitive position. But if market share is low, a strategy to improve the same must be developed. If the industry is relatively small and market share is low despite high growth stage, management must consider divesting and redeploying resources in other more competitive businesses.
- A business in the Shake-out or Maturity stage has a potential to be a Cash Cow. Investments could be made to maintain high market share.
- A business in Decline stage with a low market share would be a Dog business. Though in the short run it may generate cash, in the long run, however, it should be considered for divestment or liquidation.

Q8- Discuss BALANCED SCORE CARD (BSC)? (v v v v v imp)

Ans – BALANCED SCORE CARD (BSC)

Any organization, be it private or public, uses certain parameters as a tool for performance meaurement. This is important to incorporate suggestions thereby working on a continuous improvement process, in turn evaluating the strategy so as to transform it into action. This section gives you an insight into one of the tools, i.e. Balance Score Card (BSC) to measure the performance of a business thereby evaluating the strategy. We have already learnt about BSC in block 2, unit 6. Here, we are going to look into this aspect of performance measurement in little detail. Performance measures are said to be the indicators of success and form a major part of any organization. These indicators should be such that they are understood by all levels of the organization and help in achieving the specific objectives of the organization. Each organization has its own set of performance measurement framework. Let us now discuss the concept of BSC and how it can help an organization in performing effectively

History

1990s saw the emergence of strategic management as a whole new concept. In the same time period a very new approach to it was developed by Dr. Robert Kaplan (Harvard Business School) and David Norton (Balance Score and Collaborative) and named it as 'Balanced Scorecard'. According to them, it provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective (www.hrfolks.com).

The BSC is a **Management system** that enables organizations **to clarify their vision and strategy and translate them into action**. It provides a feedback around both the internal business processes and external outcomes so as to improve the strategic performance and results continuously.

According to Kaplan & Norton "The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate strong for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation." It is important to note that according to BSC we view the organization from four perspectives and they are:

- The Learning and Growth perspectives
- The Business Process perspective
- The Customer perspective
- The Financial perspective

The learning and growth perspective includes employee training and corporate cultural attitudes which are related to both individual and corporate self-improvement. The business process perspective refers to paternal business processes. This includes the strategic management process. The customer perspective, as the name suggests, aims at satisfying the customers' needs and wants as the customer satisfaction is one of the performance indicators for any organization.

The last perspective, i.e., the financial perspective relates to the handling and

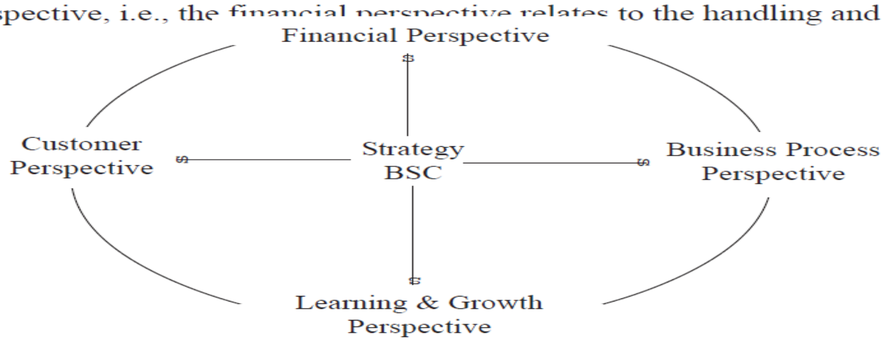


Figure 16.7: Balanced Score Card

processing of financial data. Figure 16.7 can be the diagrammatic representation of BSC for an organization.

Let us understand this concept with the help of an illustration.

Illustration: The business of enterprise is the production and sale of a localcommunity newspaper. The main focus is on cost control and reduction, low

In short we can say that BSC is a strategic performance management system for the organization. It is not only a measurement tool but is also a communication tool to make strategy clear to all working in the organization and tries to balance the financial and non-financial aspects of the organization. There is a commitment to manage and improve continuously. One of the bestsellers 'You can win' by Shiv Khera quotes that "winners don't do different things, they do things differently". Therefore, BSC is all about doing right thing at right time, but differently.

Q9- Discuss BCG's Growth-Share Matrix? (v v v v v imp)

Ans – BCG's Growth-Share Matrix

BCG's Portfolio Analysis is based on the premise that majority of the companies carry out multiple business activities in a number of different product-market segments. Together these different businesses form the Business Portfolio which can be characterised by two parameters:

1) company's relative market share for the business, representing the firms competitive positions; and
2) the overall growth rate of that business.

The BCG model proposes that for each business activity within the corporate portfolio, a separate strategy must be developed depending on its location in a two-by-two portfolio matrix of high and low segments on each of the above mentioned axes.

Relative Market Share is stressed on the assumption that the relative competitive position of the company would determine the rate at which the business generates cash. An organization with a higher relative share of the market compared to its competitors will have higher profit margins and therefore higher cash flows.

Relative Market Share is defined as the market share of the relevant business divided by the market share of its largest competitor. Thus, if Company X has 10 per cent, Company Y has 20 per cent, and Company Z has 60 per cent share of the market, then X's Relative Market Share is 1/6m, Y's Relative Market Share is 1/3, and Z's Relative Market Share 60/20 = 3. Company Z has Company Y as its leading competitor, whereas Companies X and Y have Company Z as their lead competitor.

The selection of the **Rate of Growth** of the associated industry is based on the understanding that an industrial segment with high growth rate would facilitate expansion of the operations of the participating company. It will also be relatively easier for the company to increase its market share, and have profitable investment opportunities. High growth rate business provides opportunities to plough back earned cash into the business and further enhance the return on investment. The fast growing business, however, demands more cash to finance its growth.

If an industrial sector is not growing, it would be more difficult for the participating company to have profitable investments in that sector. In a slow growth business, increase in the market share of a company would generally come from corresponding reduction in the competitors' market share.

The BCG matrix classifies the business activities along the vertical axis according to the 'Business Growth Rate" (meaning growth of the market for the product), and the 'Relative Market Share' along the horizontal axis. The two axes are divided into

Low and High sectors, so that the BCG matrix is divided into four quadrants (refer to Figure 16.2). Businesses falling into each of these quadrants are classified with broadly different strategic categories, as explained below:

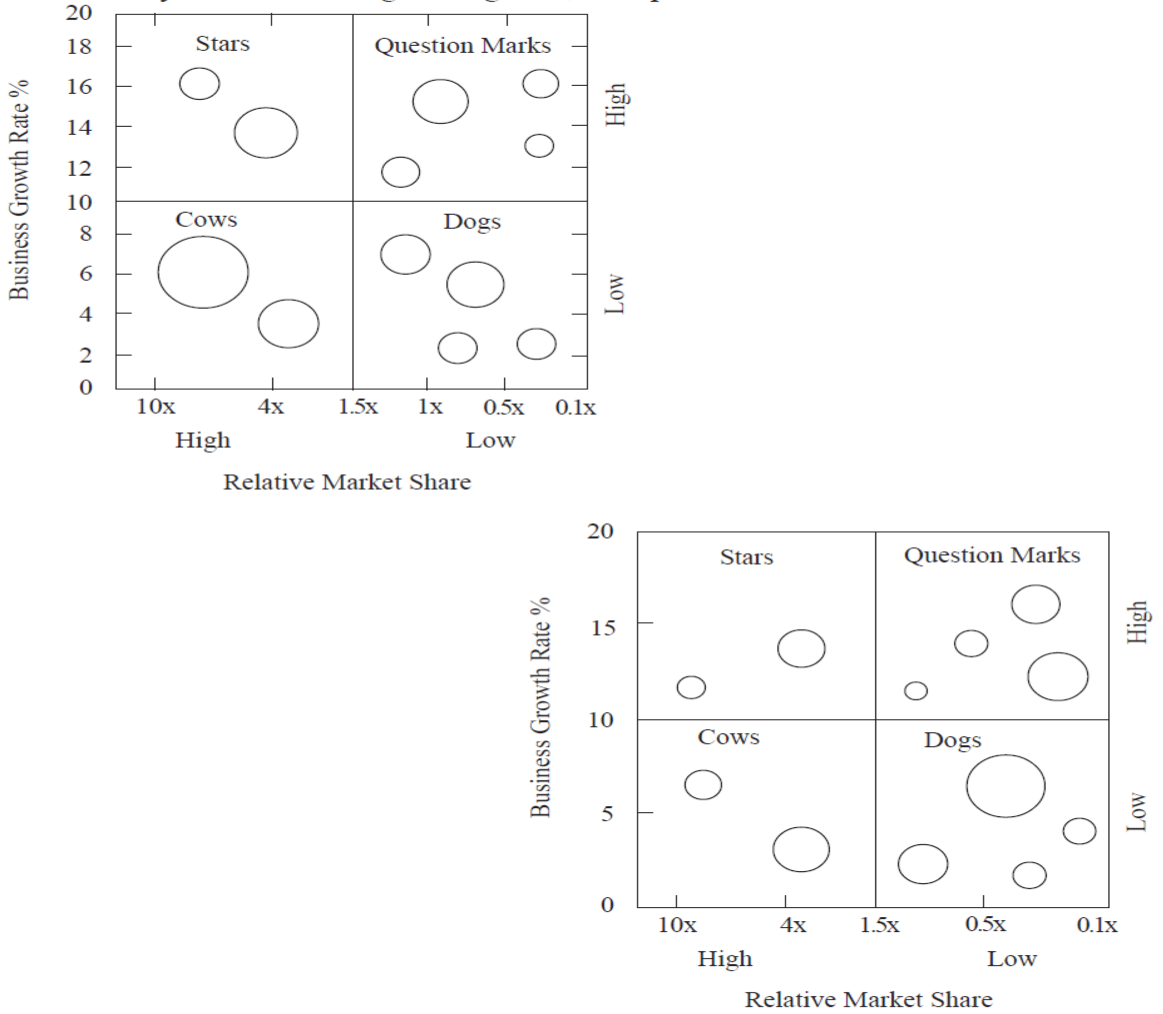


Figure 16.2: BCG Matrix

Cash Cows

The businesses with low growth rate and high market share are classified in this quadrant. High market share leads to high generation of cash and profits. The low rate of growth of the business implies that the cash demand for the business would be low. Thus, Cash Cows normally generate large cash surpluses. Cows can be 'milked' for cash to help to provide cash required for running other diverse operations of the company. Cash Cows provide the financial base for the company. These businesses have superior market position and invariably low costs. But, in terms of their future potential, one must keep in mind that these are mature businesses with low growth rate.

Dogs

If the business growth rate is low and the company's relative market share is also low, the business is classified as DOG. The low market share normally also means poor profits. As the growth rate is also low, attempts to increase market share would demand prohibitive investments. Thus, the cash required to maintain a competitive position often exceeds the cash generated, and there is a net negative cash flow.

Under such circumstances, the strategic solution is to either liquidate, or if possible harvest or divest the DOG business.

Question Marks

Like Dogs, Question Marks are businesses with low market share but the businesses have a high growth rate. Because of their high growth, the cash requirement is high, but due to their low market share, the cash generated is also low.

As the business growth rate is high, one strategic option is to invest more to gain market share, pushing from low share to high. The Question Mark business then moves to a STAR (discussed later) quadrant, and subsequently has the potential to become cash low, when the business growth rate reduces to a lower level.

Another strategic option is when the company cannot improve its low competitive position (represented by low market share). The management may then decide to divest the Question Mark business.

These businesses are called Question Marks because they raise the question as to whether more money should be invested in them to improve their relative market share and profitability, or they should be divested and dropped from the portfolio.

Stars

Businesses which have high growth rate and high market share, are called Stars. Such businesses generate as well as use large amounts of cash. The Stars generate high profits and represent the best investment oppotunities for growth.

The best strategy regarding Stars is to make the necessary investments and consolidate the company's high relative competitive position.

Methodology for Building BCG Matrix

The Boston Consulting Group suggests the following step-by-step procedure to develop the business portfolio matrix and identify the appropriate strategies for different businesses.

- Classify various activities of the company into different business segments or Strategic Business Units (SBUs).
- For each business segment determine the growth rate of the market. This is later plotted on a linear scale.
- Compile the assets employed for each business segment and determine the relative size of the business within the company.
- Estimate the relative market shares for the different business segments. This is generally plotted on a logarithmic scale.
- Plot the position of each business on a matrix of business growth rate and relative market share.

Strategic Implications

Most companies will have different segments scattered across the four quadrants of BCG matrix, corresponding to Cash Cow, Dog, Question Mark and Star businesses.

The general strategy of a company with diverse portfolio is to maintain its competitive position in the Cash Cows, but avoid over-investing. The surplus cash generated by Cash Cows should be invested first in Star businesses, if they are not self-sufficient, to maintain their relative competitive position. Any surplus cash left with the company may be used for selected Question Mark businesses to gain market

share for them. Those businesses with low market share, and which cannot adequately be funded, may be considered for divestment. The Dogs are generally considered as the weak segments of the company with limited or now new investments allocated to them. The BCG Growth-share matrix links the industry growth characteristic with the company's competitive strength (market share), and develops a visual display of the company's market involvement, thereby indirectly indicating current resource deployment. (The sales to asset ratio is generally stable over time across industries). The underlying logic is that investment is required for growth while maintaining or building market share. But, while doing so, a strong competitive business in an industry with low growth rate will provide surplus cash for deployment elsewhere in the Corporation. Thus, growth uses cash whereas market competitive strength is a potential source of cash

Table 16.1: Cash Positions of Various Businesses

	Business Type	*Cash Source*	*Cash Use*	*Net Cash Balance*
1.	COW	More	Less	Funds available, so milk and deploy
2.	STAR	More	More	Build competitive position and grow
3.	DOG	Less	More	Divest and redeploy proceeds
4.	QUESTION	Less	More	Funds needed to invest selectively to improve competitive position

Predicting Profitability from Growth and Market Share

BCG analysis assumes that profits depend on growth and market share. The attractiveness of an industry may be different from its simple growth rate, and the firm's competitive position may not be reflected in its market share. Some other sophisticated approaches have been evolved to overcome such limitations.

There have been specific research studies which illustrate that the well-managed Dog businesses can also become good cash generators. These organizations relying on high-quality goods, with medium pricing and judicious expenditure on R & D and marketing, can still provide impressive return on investment of above 20 per cent.

Difficulty in Determining Market Share

There is a heavy dependence on the market share of a business as an indicator of its competitive strength. The calculation of market share is strongly influenced by the way the business activity and the total market are defined. For instance, the market for helicopters may encompass all types of helicopters, or only heavy helicopters or only heavy military helicopters. Furthermore, from geographical point of view the market may be defined on worldwide, national or an even regional bases. In case of complex and interdependent industries, it may also be quite difficult to determine the market share based on the sales turnover of the final product only.

No Consideration for Experience Curve Synergy

In the BCG approach, businesses in each of the different quadrants are viewed independently for strategic purposes. Thus, Dogs are to be liquidated or divested. But, within the framework of the overall corporation, useful experiences and skills can be acquired by operating low-profit Dog businesses which may help in lowering the costs of Star or Cash Cow businesses. And this may contribute to higher corporate profits.

Disregard for Human Aspect

The BCG analysis, while considering different businesses does not take into consideration the human aspects of running an organization. Cash generated within a business unit may come to be symbolically associated with the power of the concerned manager. As such managing a Cash Cow business may be reluctant to part with the surplus cash generated by his unit. Similarly, the workers of a Dog business which has been decided to be divested may react strongly against changes in the ownership. They may deem the divestiture as a threat to their livelihood or security. Thus, BCG analysis could throw up strategic options which may or may not be easy to implement.

BCG Modifications

It was in 1981 that the Boston Consulting Group realied the limitations of equating market share with the competitive strength of the company. They have admitted that the calculation of market share is strongly influenced by the way business activity and the total market domain are defined. A broadly defined market will give lower market share, whereas a narrow market definition will result in higher market share resulting in the company as the leader. It was, therefore, recommended that products should be regrouped according to the manufacturing process to highlight the economies of scale manufacturing, instead of stressing the market leadership.

On the other hand, BCG still maintain that for branded goods it is important to be the market leader so that the advantages of economies of scale and price leadership can be fully utilised. But they also concede that such advantages may still be achieved even if the company is not the largest producer in the industry. Some other verions of portfolio analysis have however developed much beyond these minor modifications of BCG analysis.

Q10- Discuss five pillars of corporate governance? (v v v v v imp)

Ans – Corporate governance is a combination of five pillars. The objectives of these pillars help an organization in the implementation of strategy. These pillars are:

1. Accountability
2. Fairness
3. Transparency
4. Integrity
5. Social responsibility

All these pillars are critical for the success of an organization. This helps in developing a strong relationship with the shareholders and all stakeholders.

1. **Accountability:** This is a form of ownership strategy which means owning the rewards and failures/risks in the context of the value proposition by an organization. Accountability should be applicable at all levels from the lower management to the top management, and then only it works.

2. **Fairness:** This means treating all the stakeholders equally without any demarcation of caste, status etc. This involves effective communication as well.

3. **Transparency:** This is one of the most important pillars of corporate governance as it gives credibility to an organization. Transparency means, disclosing all the information which are relevant and important for all the shareholders and stakeholders so that they are not in dark about the performance of an organization.

4. **Integrity:** It is important for any organization and this comes through a professional culture where each employee is given importance which makes him/her to perform at their best.

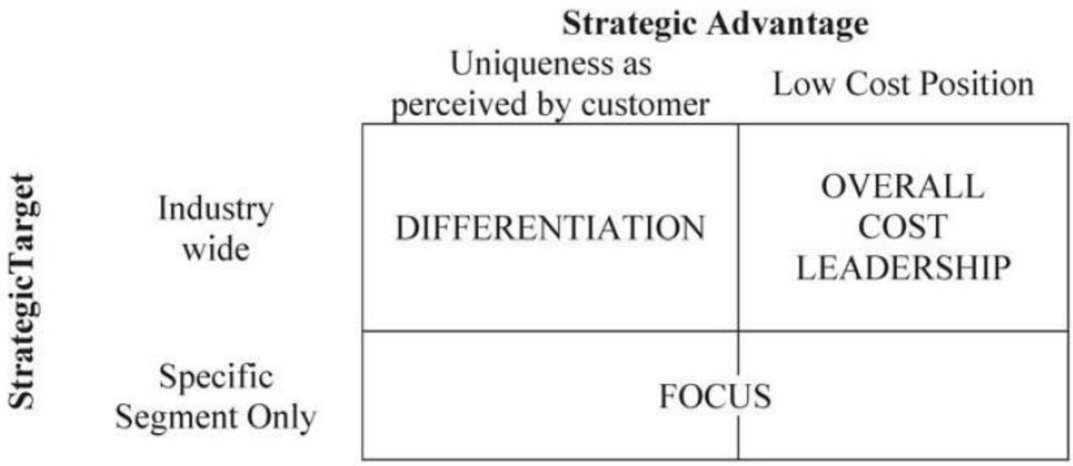
5. **Social responsibility:** This applies at the top management level. The decision taken at the top should be such that they benefit the organization as a whole. Therefore, it is important that the organization should have a clear understanding of these pillars and practice there accordingly.

Q10- Discuss OVERALL COST LEADERSHIP? (v v v v v imp)

Ans The organizations operating in this highly competitive environment are always on the move to become successful. To strive in this competitive environment the organizations should have an edge over the competitors. To develop competitive advantage, the organizations should produce good quality products at minimum costs etc. This means that the organizations should provide high quality at low cost so that the customer gets the best value for the product s/he is buying. Therefore, it becomes necessary for the organizations to have a strategic edge towards its competitors. One such generic strategy is overall cost leadership, which aims at producing and delivering the product or service at a low cost relative to its competitors at the same time maintain the quality. According to Porter, following are the prerequisites of cost leadership:

1) Aggressive construction of efficient scale facilities;
2) Vigorous pursuit of cost reduction from experience;
3) Tight cost and overhead control;
4) Avoidance of marginal customer accounts;
5) Cost minimization.

According to Porter cost leadership is perhaps the clearest of the three generic or business level. To sustain the cost leadership throughout, the organization must be clear about its accomplishment through different elements of the value chain. Figure shows a matrix of the three generic strategies and their interrelationship as given by Porter.



The low-cost leadership strategy at times enables the organization to defend itself against each of the five competitive forces. If we see the concept of costleadership in the Indian context, we find that it had worked wonders with textile industries, pharmaceuticals and telecomm. This shows that a cost leader, however, cannot ignore the bases of differentiation.