INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

Dundigal, Hyderabad -500 043

MASTER OF BUSINESS ADMINISTRATION

COURSE LECTURE NOTES

Course Name	**STRATEGY AND SUSTAINABLE ENTERPRISE**
Course Code	CMBB20
Programme	MBA
Semester	II
Course Coordinator	Dr. MRS. Surya Narayana Reddy, Assistant Professor, MBA
Course Faculty	Dr. MRS. Surya Narayana Reddy, Assistant Professor, MBA
Lecture Numbers	1-45
Topic Covered	All

COURSE OBJECTIVES (COs):

The course should enable the students to:	
I	Develop a framework of analysis to enable students to identify central issues and problem in complex, comprehensive case; to suggest alternative course of action; and present well supported recommendations for future action.
II	Describe the practical and integrative model of strategic management process that defines basic activities in strategic management.
III	Analyze the competitive situation and strategic dilemma in dealing with dynamic global business environment in terms of rapidly changing market trends and technological advancement.
IV	Evaluate challenges faced by managers in implementing and evaluating strategies based on the nature of business, industry, and cultural differences
V	Develop skills to analyze and evaluate, both qualitatively and quantitatively, the performance of people responsible for strategic decisions.

COURSE LEARNING OUTCOMES (CLOs):

Students, who complete the course, will have demonstrated the ability to do the following:

CMBB20.01	Understand as to the Strategic Management Process and various tasks of Strategic Management and to comprehend the procedure for formulating and implementing strategies with case studies.
CMBB20.02	Demonstrate the importance of external environmental analysis as well prepare PESTLE Analysis and SWOT model for decision making.
CMBB20.03	Integrate and apply knowledge gained in basic courses to the formulation and implementation of strategy from holistic and multi-functional perspectives.
CMBB20.04	Demonstrate a clear understanding of the concepts, tools & techniques used by executives in developing and executing strategies and will appreciate its integrative and interdisciplinary nature.
CMBB20.05	Understand the corporate level strategy and also describe how related diversified firms create value by sharing or transferring core competencies.
CMBB20.06	Explain three primary reasons why firms move from single-and dominant strategies to more diversified strategies.

CMBB20.07	Identify the four factors that lead to a basis for international business-level strategies.
CMBB20.08	Discuss the environmental trends affecting international strategy, especially of foreignness and regionalization.
CMBB20.09	Define organizational structure and controls and discuss the difference between strategic and financial controls.
CMBB20.10	Define organizational structure and controls and discuss the difference between strategic and financial controls.

SYLLABUS

UNIT -I	STRATEGIC INPUTS	Classes: 10
Introduction to strategic management, strategic management and competitiveness, technology and technology change: vision, mission and objectives, strategic leaders, strategic management process, the external environment: opportunities, threats, competition and competitor analysis, external environmental analysis, segments of the external environment, porters 5 force model, the internal environment: resource, capabilities, competencies and competitive advantages, analyzing internal organization ,building core competencies, value chain analysis, outsourcing.		
UNIT–II	FORMULATION OF STRATEGIC ACTIONS: BUSINESS LEVEL STRATEGY	Classes: 10
Effectively managing relationships with customers, the purpose of business strategy, competitive rivalry and dynamics, a model of competitive rivalry, competitor analysis, drivers of competitive actions and responses, competitive rivalry and dynamics.		
UNIT-III	CORPORATE LEVEL STRATEGY	Classes: 10
Levels of diversifications and reasons, value creating diversifications, strategic acquisitions a restructuring. Popularity of mergers and acquisitions strategies, problems in achieving acquisition success and restructuring.		
UNIT-IV	GLOBAL STRATEGY	Classes: 10
Identifying international opportunities and international strategies, strategic competitive outcomes and risk in an international environment, corporate implications for strategy, strategic alliances, corporate level		
UNIT–V	STRUCTURE AND CONTROLS WITH ORGANIZATIONS	Classes: 10
Organizational structure and controls, evolutionary patterns of strategy and organizational structure, leadership implications for strategy, entrepreneurial implications for strategy.		

Text Books:

1. Abdulrahman Al-Aali, Abbas Ali, "Strategic Management: Concepts and Cases", Pearson Publication, 1st Arab World Edition, 2011.
2. Bowman EH, Singh H., "Overview of Corporate Restructuring: trends and consequences". In Corporate Restructuring, McGraw-Hill, 1st Edition, 1990.
3. Bleeke J, Ernst D, "Collaborating to Compete: Using Strategic Alliances and Acquisitions in the Global Marketplace", John Wiley & Sons Publications, 1st Edition, 1993

Reference Books:

1. Albrecht, K, _Brain Power: "Learning to Improve Your Thinking Skills", Simon and Schuster Publications, 1st Edition, 1980.
2. Allaire, Y., and M. E. Firsirotu, "Theories of Organizational Culture" Prentice Hall, 1st Edition, 1999.
3. Allen, R.W, "Organizational Politics _Tactics and Characteristics of its Actors", 1st California Management Review, 1979.

Web References:

1. http://www.pondiuni.edu.in/storage/dde/downloads/mbaii_sm.pdf
2. http://202.28.25.105/elearning/courses/703309/document/StrategicManagementDavid.pdf?cidReq= 703309

E-Text Books:

1. https://epdf.pub/queue/strategic-management-13th-edition.html
1. http://ebooks.lpude.in/commerce/mcom/term_4/dcom506_dmgt502_strategic_management.pdf

UNIT-I

STRATEGIC INPUTS

Introduction to strategic management, strategic management and competitiveness, technology and technology change: vision, mission and objectives, strategic leaders, strategic management process, the external environment: opportunities, threats, competition and competitor analysis, external environmental analysis, segments of the external environment, porters 5 force model, the internal environment: resource, capabilities, competencies and competitive advantages, analysing internal organization ,building core competencies, value chain analysis, outsourcing.

Introduction

Strategic Management is exciting and challenging. It makes fundamental decisions about the future direction of a firm – its purpose, its resources and how it interacts with the environment in which it operates. Every aspect of the organisation plays a role in strategy – its people, its finances, its production methods, its customers and so on.

Strategic Management can be described as the identification of the purpose of the organisation and the plans and actions to achieve that purpose. It is that set of managerial decisions and actions that determine the long-term performance of a business enterprise. It involves formulating and implementing strategies that will help in aligning the organisation and its environment to achieve organisational goals. Strategic management does not replace the traditional management.

activities such as planning, organising, leading or controlling. Rather, it integrates them into a broader context taking into account the external environment and internal capabilities and the organisation's overall purpose and direction. Thus, strategic management involves those management processes in organisations through which future impact of change is determined and current decisions are taken to reach a desired future. In short, strategic management is about envisioning the future and realizing it.

Definition of Strategic Management:

We have so far discussed the concepts of strategic thinking, strategic decision-making and strategic approach which, it is hoped, will serve as a background understand the nature of strategic management. However, to get an understanding of what goes on in strategic management, it is useful to begin with definitions of strategic management. Later in the unit, we introduce the elements and the process of strategic management and the importance, benefits and limitations of strategic management.

As already mentioned, the concepts in strategic management have been developed by a number of authors like Alfred Chandler, Kenneth Andrews, Igor Ansoff, William Glueck, Henry Mintzberg, Michael E. Porter, Peter Drucker and a host of others. There are therefore several definitions of strategic management. Some of the important definitions are:

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

   – ***Alfred Chandler, 1962***

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

   – ***Glueck and Jauch, 1984***

3. "Strategic management is a process of formulating, implementing and evaluating cross-functional decisions that enable an organisation to achieve its objective".

– Fed R David, 1997 4. "Strategic management is the set of decisions and actions resulting in the formulation and implementation of plans designed to achieve a company's objectives."

– Pearce and Robinson, 1988

4. "Strategic management includes understanding the strategic position of an organisation, making strategic choices for the future and turning strategy into action."

   – Johnson and Sholes, 2002

5. "Strategic management consists of the analysis, decisions, and actions an organisation undertakes in order to create and sustain competitive advantages."

   – Dess, Lumpkin & Taylor, 2005

We observe from the above definitions that different authors have defined strategic management in different ways. Note that the definition of Chandler that we have quoted above is from the early 1960s, the period when strategic management was being recognized as a separate discipline. This definition consists of three basic elements:

l. Determination of long-term goals

2. Adoption of courses of action

3. Allocation of resources to achieve those goals

Though this definition is simple, it does not consist of all the elements and does not capture the essence of strategic management. The definitions of Fred R. David, Pearce and Robinson, Johnson and Sholes and Dell, Lumpkin and Taylor are some of the definitions of recent origin. Taken together, these definitions capture three main elements that go to the heart of strategic management. The three on-going processes are strategic analysis, strategic formulation and strategic implementation.

These three components parallel the processes of analysis, decisions and actions. That is, strategic management is basically concerned with:

l. Analysis of strategic goals (vision, mission and objectives) along with the analysis of the external and internal environment of the organisation.

2. Decisions about two basic questions:

(a) What businesses should we compete in?

(b) How should we compete in those businesses to implement strategies?

3. Actions to implement strategies. This requires leaders to allocate the necessary resources and to design the organisation to bring the intended strategies to reality. This also involves evaluation and control to ensure that the strategies are effectively implemented.

The real strategic challenge to managers is to decide on strategies that provide competitive advantage which can be sustained over time. This is the essence of strategic management, and Dess, Lumpkin and Taylor have rightly captured this element in their definition.

Dimensions of Strategic Management:

The characteristics of strategic management are as follows:

1. **Top management involvement:** Strategic management relates to several areas of a firm's operations. So, it requires top management's involvement. Generally, only the top management has the perspective needed to understand the broad implications of its decisions and the power to authorize the necessary resource allocations.
2. **Requirement of large amounts of resources:** Strategic management requires commitment of the firm to actions over an extended period of time. So, they require substantial resources, such as, physical assets, money, manpower etc.

   Example: Decisions to expand geographically would have significant financial implications in terms of the need to build and support a new customer base.
3. **Affect the firm's long-term prosperity**: Once a firm has committed itself to a particular strategy, its image and competitive advantage are tied to that strategy; its prosperity is dependent upon such a strategy for a long time.
4. **Future-oriented:** Strategic management encompasses forecasts, what is anticipated by the managers. In such decisions, emphasis is placed on the development of projections that will enable the firm to select the most promising strategic options. In the turbulent environment, a firm will succeed only if it takes a proactive stance towards change.
5. **Multi-functional or multi-business consequences:** Strategic management has complex implications for most areas of the firm. They impact various strategic

business units especially in areas relating to customer-mix, competitive focus, organisational structure etc. All these areas will be affected by allocations or reallocations of responsibilities and resources that result from these decisions.

6. **Non-self-generative decisions:** While strategic management may involve making decisions relatively infrequently, the organisation must have the preparedness to make strategic decisions at any point of time. That is why Ansoff calls them "non-self-generative decisions."

Need for Strategic Management:

No business firm can afford to travel in a haphazard manner. It has to travel with the support of some route map. Strategic management provides the route map for the firm. It makes it possible for the firm to take decisions concerning the future with a greater awareness of their implications.

It provides direction to the company; it indicates how growth could be achieved. The external environment influences the management practices within any organisation. Strategy links the organisation to this external world. Changes in these external forces create both opportunities and threats to an organisation's position – but above all, they create uncertainty. Strategic planning offers a systematic means of coping with uncertainty and adapting to change. It enables managers to consider how to grasp opportunities and avoid problems, to establish and coordinate appropriate courses of action and to set targets for achievement.

Thirdly, strategic management helps to formulate better strategies through the use of a more systematic, logical and rational approach. Through involvement in the process, managers and employees become committed to supporting the organisation. The process is a learning, helping, educating and supporting activity.

An increasing number of firms are using strategic management for the following reasons:

1. It helps the firm to be more proactive than reactive in shaping its own future.
2. It provides the roadmap for the firm. It helps the firm utilize its resources in the best possible manner.
3. It allows the firm to anticipate change and be prepared to manage it.
4. It helps the firm to respond to environmental changes in a better way.
5. It minimizes the chances of mistakes and unpleasant surprises.
6. It provides clear objectives and direction for employees.

Benefits of Strategic Management:

"We are tackling 20-year problems with five-year plans staffed with two-year personnel funded by one–year appropriations". – Harlan Cleveland the above quotation sums up why today's decision-makers must plan and manage strategically. In developing as well as in industrialized countries, the increasingly rapid nature of change as well as a greater openness in the political and economic environments, requires a different set of perspective from that needed during more stable times.

When a certain degree of equilibrium existed in the environment, as during the 1950s, with constant positive economic growth, low debt, manageable budgets and relative environmental stability, managers could concentrate almost exclusively on the internal dimensions of their organisations and assume constancy in the external environment. Forward calculations were simple, inputs were predictable, and planning was mostly an arithmetic exercise.

Now, systems are much more open, environment is characterized by increasingly unstable economic growth, budgets are constantly revised, inputs are thoroughly unpredictable, and planning in the traditional sense is no longer tenable.

Therefore, today's enterprises need strategic management to reap the benefits of business opportunities, overcome the threats and stay ahead in the race. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; while long-term planning, in contrast, tries to optimize for tomorrow the trends of today.

Today, all top companies are involved in strategic management. They are finding ways to respond to competitors, cope with difficult environmental changes, meet changing customer needs and effectively use available resources. At a time when the business environment is changing rapidly, even established firms are paying more attention to strategy because they may face new competitors who threaten their core business. Should a firm compete in all areas or concentrate on one area? Should a company try to extend the brand to even more diverse areas of activity, or would it gain more by building profits in the existing areas, and achieving more synergies across the group? Should the company continue the current strategy as it is now, or would it initiate a radical review of its strategy? These are just a few examples of the strategic part of the management tasks.

A structured approach to strategy planning brings several benefits ***(Smith, 1995; Robbins, 2000)***

1. **It reduces uncertainty:** Planning forces managers to look ahead, anticipate change and develop appropriate responses. It also encourages managers to consider the risks associated with alternative responses or options.
2. **It provides a link between long and short terms:** Planning establishes a means of coordination between strategic objectives and the operational activities that support the objectives.

3. **It facilitates control:** By setting out the organisation's overall strategic objectives and ensuring that these are replicated at operational level, planning helps departments to move in the same direction towards the same set of goals.
4. **It facilitates measurement:** By setting out objectives and standards, planning provides a basis for measuring actual performance.

Strategic management has thus both financial and non-financial benefits:

1. Financial Benefits: Research indicates that organisations that engage in strategic management are more profitable and successful than those that do not. Businesses that followed strategic management concepts have shown significant improvements in sales, profitability and productivity compared to firms without systematic planning activities.

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

a) Enhanced awareness of external threats
b) Improved understanding of competitors' strategies
c) Reduced resistance to change
d) Clearer understanding of performance-reward relationship
e) Enhanced problem-prevention capabilities of organisation
f) Increased interaction among managers at all divisional and functional levels
g) Increased order and discipline.

According to Gordon Greenley, strategic management offers the following benefits:

1. It allows for identification, prioritization and exploitation of opportunities.
2. It provides objective view of management problems.
3. It provides a framework for improved coordination and control of activities.
4. It minimizes the effects of adverse conditions and changes.
5. It allows decision-making to support established objectives.
6. It allows more effective allocation of time and resources to identified opportunities.
7. It allows fewer resources and less time to be devoted to correcting erroneous and ad hoc decisions.
8. It creates a framework for internal communication among personnel.
9. It helps integrate the behaviour of individuals into a total effort.
10. It provides a basis for clarifying individual responsibilities.
11. It encourages forward thinking.
12. It provides a cooperative, integrated enthusiastic approach to tackling problems and opportunities.

13. It encourages a favourable attitude towards change.
14. It gives a degree of discipline and formality to the management of a business.

Risks involved in Strategic Management:

Strategic management is an intricate and complex process that takes an organisation into unchartered territory. It does not provide a ready-to-use prescription for success. Instead, it takes the organisation through a journey and offers a framework for addressing questions and solving problems. Strategic management is not, therefore, a guarantee for success; it can be dysfunctional if conducted haphazardly.

The following are its limitations:

1. It is a costly exercise in terms of the time that needs to be devoted to it by managers. The negative effect of managers spending time away from their normal tasks may be quite serious. 2. A negative effect may arise due to the non-fulfilment of the expectations of the participating managers, leading to frustration and disappointment.

3. Another negative effect of strategic management may arise if those associated with the formulation of strategy are not intimately involved in the implementation of strategies. The participants in formulation of the policy may shirk their responsibility for the decisions taken.

As quoted by Fred R. David, some pitfalls to watch for and avoid in strategic planning are:

1. Using strategic planning to control over decisions and resources
2. Doing strategic planning only to satisfy accreditation or regulatory requirements
3. Moving too hastily from mission development to strategy formulation
4. Failing to communicate the strategic plan to the employees, who continue working in the dark
5. Top managers making many intuitive decisions that conflict with the formal plan
6. Top managers not actively supporting the strategic planning process
7. Failing to use plans as a standard for measuring performance
8. Delegating strategic planning to a consultant rather than involving all managers
9. Failing to involve key employees in all phases of planning
10. Failing to create a collaborative climate supportive of change
11. Viewing planning to be unnecessary or unimportant

12. Becoming so engrossed in current problems that insufficient or no planning is done
13. Being so formal in planning that flexibility and creativity are stifled.

Strategic Management Process:

Developing an organisational strategy involves four main elements – strategic analysis, strategic choice, strategy implementation and strategy evaluation and control. Each of these contains further steps, corresponding to a series of decisions and actions, that form the basis of strategic management process.

1. **Strategic Analysis:** The foundation of strategy is a definition of organisational purpose. This defines the business of an organisation and what type of organisation it wants to be. Many organisations develop broad statements of purpose, in the form of vision and mission statements. These form the spring – boards for the development of more specific objectives and the choice of strategies to achieve them.

   Environmental analysis – assessing both the external and internal environments is the next step in the strategy process. Managers need to assess the opportunities and threats of the external environment in the light of the organisation's strengths and weaknesses keeping in view the expectations of the stakeholders. This analysis allows the organisation to set more specific goals or objectives which might specify where people are expected to focus their efforts. With a more specific set of objectives in hand, managers can then plan how to achieve them.
2. **Strategic Choice:** The analysis stage provides the basis for strategic choice. It allows managers to consider what the organisation could do given the mission, environment and capabilities – a choice which also reflects the values of managers and other stakeholders. (Dobson et al. 2004). These choices are about the overall scope and direction of the business. Since managers usually face several strategic options, they often need to analyse these in terms of their feasibility, suitability and acceptability before finally deciding on their direction.
3. **Strategy Implementation**: Implementation depends on ensuring that the organisation has a suitable structure, the right resources and competencies (skills, finance, technology etc.), right leadership and culture. Strategy implementation depends on operational factors being put into place.
4. **Strategy Evaluation and Control:** Organisations set up appropriate monitoring and control systems, develop standards and targets to judge performance.

Summarizes the steps involved in each of the above elements of strategic management.

Elements in strategy process	**Questions**	**Description**
STRATEGY FORMULATION		
Strategic analysis		
Defining organizational purpose	What is our purpose? What kind of organization do we want to be?	Organizational purpose is generally articulated in vision and mission statements. The first task is, therefore, to identify vision and mission of the organization. Environmental analysis involves the gathering and analysis of intelligence on the business environment. This encompasses the external environment (general and competitive forces), the internal environment (resources, competences, performance relative to competitors), and stakeholder expectations
Strategic choice		
Objectives	Where do we want to be?	Objectives provide a more detailed articulation of purpose and a basis for monitoring performance.
Options analysis	Are there alternative routes?	Alternative strategic options may be identified; options require to be appraised in order that the best can be selected
Strategies	How are we going to get there?	Strategies are the means or courses of action to achieve the purpose of the organization.
STRATEGY IMPLEMENTATION		
Actions	How do we turn plans into reality?	A specification of the operational activities and tasks required to enable strategies to be implemented.
STRATEGY EVALUATION AND CONTROL		

Monitoring and control	How will we know if we are getting there?	Monitoring performance and progress in meeting objectives, taking corrective action as necessary and reviewing strategy.

Business Vision:

The first task in the process of strategic management is to formulate the organisation's vision and mission statements. These statements define the organisational purpose of a firm. Together with objectives, they form a "hierarchy of goals."

A clear vision helps in developing a mission statement, which in turn facilitates setting of objectives of the firm after analysing external and internal environment. Though vision, mission and objectives together reflect the "strategic intent" of the firm, they have their distinctive characteristics and play important roles in strategic management.

Vision can be defined as "a mental image of a possible and desirable future state of the organisation" (Bennis and Nanus). It is "a vividly descriptive image of what a company wants to become in future". Vision represents top management's aspirations about the company's direction and focus. Every organisation needs to develop a vision of the future. A clearly articulated vision moulds organisational identity, stimulates managers in a positive way and prepares the company for the future.

"The critical point is that a vision articulates a view of a realistic, credible, attractive future for the organisation, a condition that is better in some important ways than what now exists."

Vision, therefore, not only serves as a backdrop for the development of the purpose and strategy of a firm, but also motivates the firm's employees to achieve it.

According to Collins and Porras, a well-conceived vision consists of two major components:

1. Core ideology
2. Envisioned future

Core ideology is based on the enduring values of the organisation ("what we stand for and why we exist"), which remain unaffected by environmental changes. Envisioned future consists of a long-term goal (what we aspire to become, to achieve, to create") which demands significant change and progress.

Defining Vision:

Vision has been defined in several different ways. ***Richard Lynch*** defines vision as *"a challenging and imaginative picture of the future role and objectives of an organisation, significantly going beyond its current environment and competitive position."*

E1-Namaki defines it *as "a mental perception of the kind of environment that an organisation aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception"*. **Kotter** defines it as *"a description of something (an organisation, corporate culture, a business, a technology, an activity) in the future."*

The vision itself is presented as a picture or image that serves as a guide or goal. Depending on the definition, it is referred to as inspiring, motivating, emotional and analytical. For Boal and Hooijberg, effective visions have two components:

1. A cognitive component (which focuses on outcomes and how to achieve them)
2. An affective component (which helps to motivate people and gain their commitment to it)

Definitions of Vision:

1. **Johnson:** Vision is "clear mental picture of a future goal created jointly by a group for the benefit of other people, which is capable of inspiring and motivating those whose support is necessary for its achievement".
2. **Kirkpatrick et al:** Vision is "an ideal that represents or reflects the shared values to which the organisation should aspire".
3. **Thornberry:** Vision is "a picture or view of the future. Something not yet real, but imagined. What the organisation could and should look like. Part analytical and part emotional".
4. **Shoemaker:** Vision is "the shared understanding of what the firm should be and how it must change".
5. **Kanter et al:** Vision is "a picture of a destination aspired to, an end state to be achieved via the change. It reflects the larger goal needed to keep in mind while concentrating on concrete daily activities".
6. **Stace and Dunphy:** Vision is "an ambition about the future, articulated today, it is a process of managing the present from a stretching view of the future".

Nature of Vision

A vision represents an animating dream about the future of the firm. By its nature, it is hazy and vague. That is why Collins describes it as a "Big hairy audacious goal" (BHAG). Yet it is a powerful motivator to action. It captures both the minds and hearts of people. It articulates a view of a realistic, credible, attractive future for the organisation, which is better than what now exists. Developing and implementing a vision is one of the leader's central roles. He should not only have a "strong sense of vision", but also a "plan" to implement it.

Example:

1. Henry Ford's vision of a "car in every garage" had power. It captured the imagination of others and aided internal efforts to mobilize resources and make it a reality. A good vision always needs to be a bit beyond a company's reach, but progress towards the vision is what unifies the efforts of company personnel.
2. One of the most famous examples of a vision is that of Disneyland "To be the happiest place on earth". Other examples are:
    a. *Hindustan Lever*: Our vision is to meet the everyday needs of people everywhere.
    b. *Microsoft*: Empower people through great software any time, any place and on any device.
    c. *Britannia Industries*: Every third Indian must be a Britannia consumer.

Although such vision statements cannot be accurately measured, they do provide a fundamental statement of an organisation's values, aspirations and goals.

Examples of Vision Statements:

1. A Coke within arm's reach of everyone on the planet **(Coca Cola)**
2. Encircle Caterpillar **(Komatsu)**
3. Become the Premier Company in the World **(Motorola)**
4. Put a man on the moon by the end of the decade (John F. Kennedy, April 1961)
5. Eliminate what annoys our bankers and customers (Texas Commerce Bank)
6. The one other copy (Mobil).

Characteristics of Vision Statements:

As may be seen from the above definitions, many of the characteristics of vision given by these authors are common such as being clear, desirable, challenging, feasible and easy to communicate. Nutt and Back off have identified four generic features of visions that are likely to enhance organisational performance:

1. **Possibility** means the vision should entail innovative possibilities for dramatic organisational improvements.

2. **Desirability** means the extent to which it draws upon shared organisational norms and values about the way things should be done.

3. **Actionability** means the ability of people to see in the vision, actions that they can take that are relevant to them.

4. **Articulation** means that the vision has imagery that is powerful enough to communicate clearly a picture of where the organisation is headed.

According to Thompson and Strickland, some important characteristics of an effective vision statement are:

1. **It must be easily communicable:** Everybody should be able to understand it clearly.
2. **It must be graphic:** It must paint a picture of the kind of company the management is trying to create.
3. **It must be directional:** It must say something about the company's journey or destination.
4. **It must be feasible:** It must be something which the company can reasonably expect to achieve in due course of time.
5. **It must be focused:** It must be specific enough to provide managers with guidance in making decisions.
6. **It must be appealing** to the long-term interests of the stakeholders.
7. **It must be flexible:** It must allow company's future path to change as events unfold and circumstances change.

Importance of Vision:

Having a strategic vision is linked to competitive advantage, enhancing organisational performance, and achieving sustained organisational growth. Clear vision enable firms to determine how well organisational leaders are performing and to identify gaps between the vision and current practices. Organisations preparing for transformational change regularly undertake "envisioning" exercises to help guide them into the future.

The visioning process itself can enhance the self-esteem of the people who participate in it because they can see the potential fruits of their labours. Conversely, a "lack of vision" is associated with organisational decline and failure. As Beaver argues "Unless companies have clear vision about how they are going to be distinctly different and unique in adding and satisfying their customers, they are likely to be the corporate failure statistics of tomorrow".

Lacking vision is used to explain why companies fail to build their core competencies despite having access to adequate resources to do so. Business strategies that lack visionary content may fail to identify when change is needed. Lack of an adequate process for translating shared vision into collective action is associated with the failure to produce transformational organisational change.

Thus, vision statements serve as:

1. **A basis for performance:** A vision creates a mental picture of an organisation's path and direction in the minds of people in the organisation and motivates them for high performance.
2. **Reflects core values:** A vision is generally built around core values of an organisation, and channelizes the group's energies towards such values and serves as a guide to action.
3. **Way to communicate:** A vision statement is an exercise in communication. A well communicated vision statement will bring the employees together and galvanize them into action.
4. **A desirable challenge:** A vision provides a desirable challenge for both senior and junior managers.

While providing a sense of direction, strategic vision also serves as a kind of "emotional commitment". Thompson and Strickland point out the significance of "vision" which is broadly as follows:

1. It crystallizes top management's own view about firm's long-term direction.
2. It reduces the risk of rudderless decision-making.
3. It serves as a tool for maximizing the support of organisation members for internal changes. 4. It serves as a "beacon" to guide managers in decision-making.
5. It helps the organisation to prepare for the future.

Vision poses a challenge and addresses the human need for something to strive for. It can depict an image of the future that is both attractive and worthwhile.

Indeed, developing a strategic vision may be regarded as a managerial imperative in the strategic management process. This is because strategic management presupposes the necessity to look beyond today, to anticipate the impact of new technology, changes in customer needs and market opportunities. Creating a well-conceived vision illuminates an organisation's direction and purpose, and then using it repeatedly as a reminder of "where we are headed and why" helps keep organisation members on the chosen path.

Advantages of Vision:

Several advantages accrue to an organisation having a vision. Parikh and Neubauer point out the following advantages:

1. Good vision fosters long-term thinking.
2. It creates a common identity and a shared sense of purpose.
3. It is inspiring and exhilarating.

4. It represents a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
5. It fosters risk-taking and experimentation.
6. A good vision is competitive, original and unique. It makes sense in the market place.
7. A good vision represents integrity. It is truly genuine and can be used for the benefit of people.

When does a vision fail?

A vision may fail when it is:

1. Too specific (fails to contain a degree of uncertainty)
2. Too vague (fails to act as a landmark)
3. Too inadequate (only partially addresses the problem)
4. Too unrealistic (perceived as unachievable)

A.D. Jick observes that a vision is also likely to fail when leaders spend 90 percent of their time articulating it to their staff and only 10 percent of their time in implementing it. There are two other reasons for vision failure:

1. Adaptability of vision over time
2. Presence of competing visions

Formulating a Vision Statement:

Generally, in most cases, vision is inherited from the founder of the organisation who creates a vision. Otherwise, some of the senior strategists in the organisation formulate the vision statement as a part of strategic planning exercise.

Nutt and Back off identify three different processes for crafting a vision:

1. **Leader-dominated Approach:** The CEO provides the strategic vision for the organisation. This approach is criticized because it is against the philosophy of empowerment, which maintains that people across the organisation should be involved in processes and decisions that affect them.
2. **Pump-priming Approach:** The CEO provides visionary ideas and selects people and groups within the organisation to further develop those ideas within the broad parameters set out by the CEO.
3. **Facilitation Approach:** It is a “co-creating approach” in which a wide range of people participate in the process of developing and articulating a vision. The CEO acts as a facilitator, orchestrating the crafting process. According to Nutt and Backoff, it is this approach that is likely to produce better visions and more successful

organisational change and performance as more people have contributed to its development and will therefore be more willing to act in accordance with it.

While the above frameworks identify the extent to which there is involvement throughout the organisation in the development of the vision, they do not address the specifics on how to develop the actual vision itself.

Introduction: Mission

"A mission statement is an enduring statement of purpose". A clear mission statement is essential for effectively establishing objectives and formulating strategies.

A mission statement is the purpose or reason for the organisation's existence. A well-conceived mission statement defines the fundamental, unique purpose that sets it apart from other companies of its type and identifies the scope of its operations in terms of products offered and markets served. It also includes the firm's philosophy about how it does business and treats its employees. In short, the mission describes the company's product, market and technological areas of emphasis in a way that reflects the values and priorities of the strategic decision makers.

As Fred R. David observes, mission statement is also called a creed statement, a statement of purpose, a statement of philosophy etc. It reveals what an organisation wants to be and whom it wants to serve. It describes an organisation's purpose, customers, products, markets, philosophy and basic technology. In combination, these components of a mission statement answer a key question about the enterprise: "What is our business?".

Defining Mission

Thompson defines mission as *"The essential purpose of the organisation, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy"*. Hunger and Wheelen simply call the mission as the "purpose or reason for the organisation's existence".

A mission can be defined as a sentence describing a company's function, markets and competitive advantages. It is a short-written statement of your business goals and philosophies. It defines what an organisation is, why it exists and its reason for being. At a minimum, a mission statement should define who are the primary customers of the company, identify the products and services it produces, and describe the geographical location in which it operates.

Examples:

1. **Ranbaxy Petrochemicals:** To become a research based global company.

2. **Reliance Industries:** To become a major player in the global chemicals business and simultaneously grow in other growth industries like infrastructure.
3. **ONGC:** To stimulate, continue and accelerate efforts to develop and maximize the contribution of the energy sector to the economy of the country.
4. **Cadbury India:** To attain leadership position in the confectionery market and achieve a strong national presence in the food drinks sector.
5. **Hindustan Lever:** Our purpose is to meet every day needs of people everywhere – to anticipate the aspirations of our consumers and customers, and to respond creatively and competitively with branded products and services which raise the quality of life.
6. **McDonald:** To offer the customer fast food prepared in the same high quality worldwide, tasty and reasonably priced, delivered in a consistent low-key décor and friendly manner.

Most of the above mission statements set the direction of the business organisation by identifying the key markets which they plan to serve.

Missions have one or more of the five distinct and identifiable components:

1. Customers
2. Products or services
3. Markets
4. Concern for growth
5. Philosophy

Importance of Mission Statement

The purpose of the mission statement is to communicate to all the stakeholders inside and outside the organisation what the company stands for and where it is headed. It is important to develop a mission statement for the following reasons:

1. It helps to ensure unanimity of purpose within the organisation.
2. It provides a basis or standard for allocating organisational resources.
3. It establishes a general tone or organisational climate.
4. It serves as a focal point for individuals to identify with the organisation's purpose and direction.
5. It facilitates the translation of objectives into tasks assigned to responsible people within the organisation.
6. It specifies organisational purpose and then helps to translate this purpose into objectives in such a way that cost, time and performance parameters can be assessed and controlled.

Developing a comprehensive mission statement is also important because divergent views among managers can be revealed and resolved through the process.

Characteristics of a Mission Statement

A good mission statement should be short, clear and easy to understand. It should therefore possess the following characteristics:

1. **Not lengthy:** A mission statement should be brief.
2. **Clearly articulated:** It should be easy to understand so that the values, purposes, and goals of the organisation are clear to everybody in the organisation and will be a guide to them.
3. **Broad, but not too general:** A mission statement should achieve a fine balance between specificity and generality.
4. **Inspiring:** A mission statement should motivate readers to action. Employees should find it worthwhile working for such an organisation.
5. **It should arouse positive feelings and emotions** of both employees and outsiders about the organisation.
6. **Reflect the firm's worth:** A mission statement should generate the impression that the firm is successful, has direction and is worthy of support and investment.
7. **Relevant:** A mission statement should be appropriate to the organisation in terms of its history, culture and shared values.
8. **Current:** A mission statement may become obsolete after some time. As Peter Drucker points out, "Very few mission statements have anything like a life expectancy of thirty, let alone, fifty years. To be good enough for ten years is probably all one can normally expect". Changes in environmental factors and organisational factors may necessitate modification of the mission statement.
9. **Unique:** An organisation's mission statement should establish the individuality and uniqueness of the company.
10. **Enduring:** A mission statement should continually guide and inspire the pursuit of organisational goals. It may not be fully achieved, but it should be challenging for managers and employees of the organisation.
11. **Dynamic:** A mission statement should be dynamic in orientation allowing judgments about the most promising growth directions and the less promising ones.
12. **Basis for guidance:** Mission statement should provide useful criteria for selecting a basis for generating and screening strategic options.

13. **Customer orientation:** A good mission statement identifies the utility of a firm's products or services to its customers, and attracts customers to the firm.
14. A declaration of social policy: A mission statement should contain its philosophy about social responsibility including its obligations to the stakeholders and the society at large.
15. Values, beliefs and philosophy: The mission statement should lay emphasis on the values the firm stands for; company philosophy, known as "company creed", generally accompanies or appears within the mission statement.

Components of a Mission Statement:

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

1. **Basic product or service:** What are the firm's major products or services?
2. **Primary markets:** Where does the firm compete?
3. **Principal technology:** Is the firm technologically current?
4. **Customers:** Who are the firm's customers?
5. **Concern for survival, growth and profitability:** Is the firm committed to growth and financial soundness?
6. **Company philosophy:** What are the basic beliefs, values, aspirations and ethical priorities of the firm?
7. **Company self-concept:** What is the firm's distinctive competence or major competitive advantage?
8. **Concern for public image:** Is the firm responsive to social, community and environmental concerns?
9. **Concern for employees:** Are employers considered a valuable asset of the firm?
10. **Concern for quality:** Is the firm committed to highest quality?

Evaluating Mission Statements:

1. For a mission statement to be effective, it should meet the following ten conditions:

1. The mission statement is clear and understandable to all parties involved. The organisation can articulate and relate to it.
2. The mission statement is brief enough for most people to remember.

3. The mission statement clearly specifies the purpose of the organisation. This includes a clear statement about:
    a. What needs the organisation is attempting to fill (not what products or services are offered)?
    b. Who the organisation's target populations are?
    c. How the organisation plans to go about its business; that is, what its primary technologies are?
4. The mission statement should have a primary focus on a single strategic thrust.
5. The mission statement should reflect the distinctive competence of the organisation (e.g., what can it do best? What is its unique advantage?)
6. The mission statement should be broad enough to allow flexibility in implementation, but not so broad as to permit lack of focus.
7. The mission statement should serve as a template and be the same means by which the organisation can make decisions.
8. The mission statement must reflect the values, beliefs and philosophy of operations of the organisation.
9. The mission statement should reflect attainable goals.
10. The mission statement should be worked so as to serve as an energy source and rallying point for the organisation (i.e., it should reflect commitment to the vision).

Distinction between Vision and Mission:

We have already distinguished between vision and mission statements in the previous section; we throw more light on this distinction in this section. While a mission statement describes what the organisation is now; a vision statement describes what the organisation would like to become. A vision statement defines more of a direction as to "where are we headed" and "what do we want to become", whereas the company's mission broadly indicates the "business purpose" of the organisation. The distinction between vision and mission can be summarized as follows:

Objectives:

Objectives are the results or outcomes an organisation wants to achieve in pursuing its basic mission. The basic purpose of setting objectives is to convert the strategic vision and mission into specific performance targets. Objectives function as yardsticks for tracking an organisation's performance and progress.

Characteristics of Objectives:

Well – stated objectives should be:

i. Specific
ii. Quantifiable
iii. Measurable
iv. Clear
v. Consistent
vi. Reasonable
vii. Challenging
viii. Contain a deadline for achievement
ix. Communicated, throughout the organisation

Role of Objectives:

Objectives play an important role in strategic management. They are essential for strategy formulation and implementation because:

i. They provide legitimacy
ii. They state direction
iii. They aid in evaluation
iv. They create synergy
v. They reveal priorities
vi. They focus coordination
vii. They provide basis for resource allocation
viii. They act as benchmarks for monitoring progress
ix. They provide motivation

Nature of Objectives:

The following are the characteristics of objectives:

Hierarchy of Objectives:

In a multi – divisional firm, objectives should be established for the overall company as well as for each division. Objectives are generally established at the corporate, divisional and functional levels, and as such, they form a hierarchy. The zenith of the hierarchy is the mission of the organisation. The objectives at each level contribute to the objectives at the next higher level.

Long-range and Short-range Objectives:

Organisations need to establish both long-range and short-range objectives (Long–range means more than one year, and short–range means one year and less.) Short-range objectives spell out the near – term results to be achieved. By doing so, they indicate the speed and the level of performance aimed at each succeeding period.

Short – range objectives can be identical to long– range objectives if an organisation is performing at the targeted long-term level (for example, 20% growth - rate every year). The most important situation where short-range objectives differ from the long-range objectives occurs when managers cannot reach the long-range target in just one year, and are trying to elevate organisational performance. Short–range objectives (one – year goals) are the means for achieving long range objectives. A company that has an objective of doubling its sales within five years can't wait until the third or fourth year of its five-year strategic plan. Short range objectives then serve as stepping-stones or milestones.

Multiplicity of Objectives:

Organisations pursue a number of objectives. At every level in the hierarchy, objectives are likely to be multiple.

Example: The marketing division may have the objective of sales and distribution of products. This objective can be broken down into a group of objectives for the product, distribution, research and promotion activities. To describe a single, specific goal of an organisation is to say very little about it. It turns out that there are several goals involved. This may be due to the fact that the enterprise has to meet internal as well as external challenges effectively. Moreover, no single objective can place the organisation on a path of prosperity and progress in the long run.

However, an organisation should not set too many objectives. If it does, it will lose focus. Too many objectives have a number of problems.

Examples:

a. They dilute the drive for accomplishment
b. Minor objectives get highlighted to the detriment of major objectives

There is no agreement to the number of objectives that a manager can effectively handle. But, if there are so many that none receives adequate attention, the execution of objectives becomes ineffective; there is a need to be cautious. It will be wise to identify the relative importance of each objective; in case the list is not manageable.

Network of Objectives:

Objectives form an interlocking network. They are inter-related and inter-dependent. The implementation of one may impact the implementation of the other. If there is no consistency between company objectives, people may pursue goals that may be good for their own function but detrimental to the company as a whole. Therefore, objectives should not only "fit" but also reinforce each other. As observed by Koontz et al., "it is bad enough when goals do not support and interlock with one another. It may be catastrophic when they interfere with one another."

Porter's Five Force Analysis:

In 1979, the Harvard Business Review published the article "How Competitive Forces Shape Strategy" by the Harvard Professor Michael Porter. It started a revolution in the strategy field. In subsequent decades, "Porter's five forces" have shaped a generation of academic research and business practice. This unit explores how competitive analysis can be done using Porter's five forces model

The Five Forces:

In essence, the job of the strategist is to understand and cope with competition. However, managers define competition too narrowly, as if it occurs only among today's direct competitors. Yet competition for profits goes beyond established industry rivals. It includes four other competitive forces as well: customers, suppliers, potential entrants and substitutes.

The Five Forces model developed by ***Michnal E***. Porter has been the most commonly used analytical tool for examining competitive environment. According to this model, the intensity of competition in an industry depends on five basic forces. These five forces are: 1. Threat of new entrants 2. Intensity of rivalry among industry competitors 3. Bargaining power of buyers 4. Bargaining power of suppliers 5. Threat of substitute products and services. Each of these forces affects a firm's ability to compete in a given market. Together, they determine the profit potential for a particular industry. To understand industry competition and profitability, one must analyse the industry's underlying structure in terms of the five forces, as shown in the Figure 1.1.

Porter argues that the stronger each of these forces are, the more limited is the ability of established companies to raise prices and earn greater profits.

With Porter's framework, a strong competitive force can be regarded as a threat because it depresses profits. A weak competitive force can be viewed as an opportunity because it allows a company to earn greater profits. The strength of the five forces may change with time as industry conditions change. For example, in industries such as airlines, textiles and hotels, where these forces are intense, almost no company earns attractive returns on investment. In pharmaceuticals and toiletries, where these forces are benign, many companies earn attractive profits.

Forces that Shape Competition:

The configuration of the five forces differ from industry to industry. For example, in the market for commercial aircraft, fierce rivalry among existing competitors (i.e. Airbus and Boeing) and the bargaining power of buyers of aircrafts are strong, while the threat of entry, the threat of substitutes, and the power of suppliers are more benign. Thus, the strongest competitive force or forces determine the profitability of an industry and becomes the most important to strategy formulation.

1. The Threat of New Entrants: The first of Porter's Five Forces model is the threat of new entrants. New entrants bring new capacity and often substantial resources to an industry with a desire to gain market share. Established companies already operating in an industry often attempt to discourage new entrants from entering the industry to protect their share of the market and profits. Particularly when big new entrants are diversifying from other markets into the industry, they can leverage existing capabilities and cash flows to shake up competition. Pepsi did this when it entered the bottled water industry, Microsoft did when it began to offer internet browsers, and Apple did when it entered the music distribution business. The threat of new entrants, therefore, puts a cap on the profit potential of an industry. When the threat is high, existing companies hold down their prices or boost investment to deter new competitors. And the threat of entry in an industry depends on the height of entry barriers (i.e. factors that make it costly for new entrants to enter industry) that are present and on the retaliation from the entrenched competitors. If entry barriers are low and newcomers expect little retaliation, the threat of entry is high and industry profits will be moderate. It is the threat of entry, not whether entry actually occurs, that holds down profitability.

2. Barriers to entry: Entry barriers depend on the advantages that existing companies have relative to new entrants. There are seven major sources:

(a) Economies of scale: These are relative cost advantages associated with large volumes of production, that lower a company's cost structure. The cost of product per unit declines as the volume of production increases. This discourages new entrants to enter on a large scale. If the new entrant decides to enter on a large-scale to obtain economies of scale, it has to bear high risks associated with a large investment.

A further risk is that the increased supply of products will depress prices and results in vigorous retaliation by established companies. For these reasons, the threat of new entrants is reduced when established companies have economies of scale.

Example: In microprocessors, existing companies such as Intel are protected by economies of scale in research, chip fabrication and consumer marketing.

(b) Product differentiation: Brand loyalty is buyer's preference for the differentiated products of any established company. Strong brand loyalty makes it difficult for new entrants to take market share away from established companies. It reduces threat of entry because the task of breaking down well-established customer preferences is too costly for them.

(c) Capital requirements: The need to invest large financial resources in order to compete can deter new entrants. Capital may be necessary not only for fixed assets, but also to extend customer credit, build inventories and fund start-up losses. The barrier is particularly great if the capital is required for unrecoverable expenditure, such as up-front advertising or research and development. While major corporations have the financial resources to invade almost any industry, the capital requirements in certain fields limit the pool of likely entrants.

It is important not to overstate the degree to which capital requirements alone deter entry; if industry returns are attractive and are expected to remain so, and if capital markets are efficient, investors will provide new entrants with the funds they need. For example, in airlines industry, financing is available to purchase expensive aircrafts because of their resale value, and that is why there have been a number of new airlines in almost every region.

(d) Switching costs: Switching costs are the one-time costs that a customer has to bear to switch from one product to another. When switching costs are high, customers can be locked up in the existing product, even if new entrants offer a better product. Thus, the higher the switching costs are, the higher is the barrier to entry. Enterprise Resource Planning (ERP) software is an example of a product with very high switching costs. Once a company has installed SAP's ERP system, the cost of moving to a new vendor are astronomical.

(e) Access to distribution channels: The new entrant's need to secure distribution channel for the product can create a barrier to entry. The established companies have already tied up with distribution channels. For example, a new food item may have to displace others from the supermarket shelf via price breaks, promotions, intense selling efforts or some other means. The more limited the wholesale or retail channels are, tougher will be the entry into an industry. Sometimes, if the barrier is so high, a new entrant must create its own distribution channels as Timex did in the watch industry in the 1950s.

(f) Cost disadvantages independent of size: Some existing companies may have advantages other than size or economies of scale. These are derived from:

1. Proprietary technology
2. Preferential access to raw material sources
3. Government subsidies
4. Favourable geographical locations
5. Established brand identities
6. Cumulative experience New entrants may not have these advantages.

Government policy: Historically, government regulations have constituted a major entry barrier into many industries. The government can limit or even foreclose entry into industries, with such controls as license requirements and limits on access to raw materials. The liberalization policy of the Indian government relating to deregulation, delicensing and decontrol of prices opened up the economy to many new entrepreneurs.

3. Expected Retaliation: How new entrants believe that the existing companies may react will also influence their decision to enter or stay out of an industry. If reaction is vigorous and protracted enough, the profit potential in the industry can fall below the cost of capital for all participants. Existing companies often use public statements to send massages to new entrants about their commitment to defending market share. New entrants are likely to fear expected retaliation if:

a. Existing companies have previously responded vigorously to new entrants
b. Existing companies possess substantial resources to fight back
c. Existing companies seem likely to cut prices to protect their market share
d. Industry growth is slow, so newcomers can gain volume only by taking the market share from existing companies.

An analysis of entry barriers and expected retaliation is obviously crucial for any company contemplating entry into a new industry. The challenge is to find ways to surmount the entry barriers without nullifying the profitability of the industry.

4.Intensity of Rivalry among Competitors: The second of Porter's Five-Forces model is the intensity of rivalry among established companies within an industry. Rivalry means the competitive struggle between companies in an industry to gain market share from each other.

Firms use tactics like price discounting, advertising campaigns, new product introductions and increased customer service or warranties. Intense rivalry lowers prices and raises costs. It squeezes profits out of an industry. Thus, intense rivalry among established companies constitutes a strong threat to profitability. Alternatively, if rivalry is less intense, companies may have the opportunity to raise prices or reduce spending on advertising etc. which leads to higher level of industry profits.

The intensity of rivalry is greatest under the following conditions:

a. **Numerous competitors or equally powerful competitors:** When there are many competitors in an industry or if the competitors are roughly of equal size and power, the intensity of rivalry will be more. Any move by one firm is matched by an equal countermove. In such situation's rivals find it hard to avoid poaching business.
b. **Slow industry growth:** Slow industry growth turns competition into fight because the only path to growth is to take sales away from a competitor.
c. **High fixed but low marginal costs:** This creates intense pressure for competitors to cut prices below their average costs even close to their marginal costs, to steal customers.

   Example: Many paper and aluminium businesses suffer from this problem, especially if demand is not growing.
d. **Lack of differentiation or switching costs:** If products or services of rivals are nearly identical and there are few switching costs, this encourages competitors to cut prices to win new customers. Years of airline price wars reflect these circumstances in that industry.
e. **Capacity augmentation in large increments:** If the only way a manufacturer can increase capacity is in a large increment, such as building a new plant, it will run that new plant at full capacity to keep its unit costs low. Such capacity additions can be very disruptive to the supply/demand balance and cause the selling prices to fall throughout the industry.
f. **High exit barriers:** Exit barriers keep a company from leaving the industry. Exit barriers can be economic, strategic or emotional factors that keep firms competing even though they may be earning low or negative returns on their investments. If exit barriers are high, companies become locked up in a non-profitable industry where overall demand is static or declining. Excess

capacity remains in use, and the profitability of healthy competitors suffers as the sick ones hang on.

Common exit barriers are:

1. Investment in specialized assets like plant and machinery are of little or no value, and cannot be put to alternative use. So, they have to be continued.
2. High costs of exit such as retrenchment benefits, etc. that have to be paid to the redundant workers when a company ceases to operate.
3. Emotional attachment to an industry keep owners or employees unwilling to exit from an industry for sentimental reasons.
4. Economic dependence on the industry when the firm depends on a single industry for revenue and profit.
5. Government and social pressures discourage exit of industries out of concern for job loss.
6. Strategic interrelationships between business units and others prevent exit because of shared facilities, image and so on.

5. Bargaining power of buyers: The third of Porter's five competitive forces is the bargaining power of buyers. Bargaining power of buyers refers to the ability of buyers to bargain down prices charged by firms in the industry or driving up the costs of the firm by demanding better product quality and service. By forcing lower prices and raising costs, powerful buyers can squeeze profits out of an industry. Thus, powerful buyers should be viewed as a threat. Alternatively, if buyers are in a weak bargaining position, the firm can raise prices, cut costs on quality and services and increase their profit levels. Buyers are powerful if they have more negotiation leverage than the firms in the industry, using their clout primarily to pressure price reductions. **According to Porter, buyers are most powerful under the following conditions:**

(a) **There are few buyers:** If there are few buyers or each one does bulk purchases, then they have more bargaining power. Large buyers are particularly powerful in industries like telecommunication equipment, off-shore drilling, and bulk chemicals. High fixed costs and low marginal costs increase the pressure on rivals to keep capacity filling through discounts.

(b) **The products are standard or undifferentiated:** If the products purchased from the firm are standard or undifferentiated, the buyers can easily find alternative sources of supplies. Then buyers can play one company against the other, as in commodity grain markets.

(c) **The buyer faces low switching costs**: Switching costs lock the buyer to a particular firm. If switching costs are low, buyers can easily switch from one firm's product to another.

(d) **The buyer earns low profits**: If the buyer is under pressure to trim its purchasing costs, the buyer is price sensitive and bargains more.

(e) **The quality of buyer's products:** If the quality of buyer's product is little affected by industry's products, buyers are more price sensitive.

Most of the above sources of buyer power can be attributed to consumers as a group as well as to industrial and commercial buyers. The buying power of retailers is determined by the same factors, with one important addition.

Retailers can gain significant bargaining power over manufacturers when they can influence consumers. Purchasing decisions as they do in audio components, jewellery, appliances, sporting goods etc., are examples.

7.Bargaining power of suppliers: The fourth of Porter's Five Forces model is the bargaining power of suppliers. Suppliers are companies that supply raw materials, components, equipment, machinery and associated products. Powerful suppliers make more profits by charging higher prices, limiting quality or services or shifting the costs to industry participants. Powerful suppliers squeeze profits out of an industry and thus, they are a threat. For example, Microsoft has contributed to the erosion of profitability among PC makers by raising prices on operating systems. PC makers, competing fiercely for customers, have limited freedom to raise their prices accordingly.

A supplier's bargaining power will be high under the following conditions:

(a) Few suppliers: When the supplier group is dominated by few companies and is more concentrated than the firms to whom it sells, an industry is called concentrated. The suppliers can then dictate prices, quality and terms.

(b) Product is differentiated: When suppliers offer products that are unique or differentiated or built-up switching costs, it cuts off the firm's options to play one supplier against the other. For example, pharmaceutical companies that offer patented drugs with distinctive medical benefits have more power over hospitals, drug buyers etc.

(c) Dependence of supplier group on the firm: When suppliers sell to several firms and the firm does not represent a significant fraction of its sales, suppliers are prone to exert power. In other words, the supplier group does not depend heavily on the industry for revenues. Suppliers serving many industries will not hesitate to extract maximum profits from each one. If a particular industry accounts for a large portion of a supplier group's volume or profit, however, suppliers will want to protect the industry through reasonable pricing.

(d) **Importance of the product of the firm:** When the product is an important input to the firm's business or when such inputs are important to the success of a firm's manufacturing process or product quality, the bargaining power of suppliers is high.

(e) **Threat of forward integration:** When the supplier poses a credible threat of integrating forward, this provides a check against the firm's ability to improve the terms by which it purchases.

(f) **Lack of substitutes:** The power of even large, powerful suppliers can be checked if they compete with substitutes. But, if they are not obliged to compete with substitutes as they are not readily available, the suppliers can exert power.

7.Threat of substitute products: The fifth of Porter's Five Forces model is the threat of substitute products. A substitute performs the same or a similar function as an industry's product. Video conferences are a substitute for travel. Plastic is a substitute for aluminium. E-mail is a substitute for a mail. All firms within an industry compete with industries producing substitute products. For example, companies in the coffee industry compete indirectly with those in the tea and soft drink industries because all these serve the same need of the customer for refreshment.

The existence of close substitutes is a strong competitive threat because this limits the price that companies in one industry can charge for their product. If the price of coffee rises too much relative to that of tea or soft drink, coffee drinkers may switch to those substitutes. Thus, according to Porter, "substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge". For example, the price of tea puts a ceiling on the price of coffee. To the extent that switching costs are low, substitutes may have a strong effect on the profitability of an industry.

The more attractive is the price/performance ratio of substitute products, the more likely they affect an industry's profits. In other words, when the threat of substitutes is high, industry profitability suffers. If an industry does not ward off the substitutes through product performance, marketing, price or other means, it will suffer in terms of profitability and growth potential in the following circumstances:

(a) **It offers an attractive price and performance:** The better the relative value of the substitute, the worse is the profit potential of the industry. For example, long distance telephone service providers suffered with the advent of Internet-based phone services.

(b) **The buyer's switching costs to the substitutes is low:** For example, switching from a proprietary, branded drug to a generic drug usually involves minimum switching costs. Strategists should be particularly alert to changes in other industries that may make attractive substitutes.

For example, improvements in plastic materials prompted the automobile manufactures to substitute plastic for steel in many automobile components.

Internal Environmental Analysis:

Internal analysis is also referred to as "internal appraisal", "organisational audit", "internal corporate assessment" etc. Over the years, research has shown that the overall strengths and weaknesses of a firm's resources and capabilities are more important for a strategy than environmental factors. Even where the industry was unattractive and generally unprofitable, firms that came out with superior products enjoyed good profits.

Managers perform internal analysis to identify the strengths and weaknesses of a firm's resources and capabilities. The basic purpose is to build on the strengths and overcome the weaknesses in order to avail of the opportunities and minimize the effects of threats. The ultimate aim is to gain and sustain competitive advantage in the marketplace.

Importance of Internal Analysis:

Strategic management is ultimately a "matching game" between environmental opportunities and organisational strengths. But, before a firm actually starts tapping the opportunities, it is important to know its own strengths and weaknesses. Without this knowledge, it cannot decide which opportunities to choose and which ones to reject. One of the ingredients critical to the success of a strategy is that the strategy must place "realistic" requirements on the firm's resources. The firm therefore cannot afford to go by some untested assumptions or gut feelings. Only systematic analysis of its strengths and weaknesses can be of help. This is accomplished in internal analysis by using analytical techniques like RBV, SWOT analysis, Value chain analysis, Benchmarking, IFE Matrix etc.

Thus, systematic internal analysis helps the firm:

1) To find where it stands in terms of its strengths and weaknesses
2) To exploit the opportunities that are in line with its capabilities
3) To correct important weaknesses

4) To defend against threats
5) To asses capability gaps and take steps to enhance its capabilities.

This exercise is also the starting point for developing the competitive advantage required for the survival and growth of the firm.

SWOT Analysis:

SWOT stands for strengths, weaknesses, opportunities and threats. SWOT analysis is a widely used framework to summaries a company's situation or current position. Any company undertaking strategic planning will have to carry out SWOT analysis: establishing its current position in the light of its strengths, weaknesses, opportunities and threats. Environmental and industry analyses provide information needed to identify opportunities and threats, while internal analysis provides information needed to identify strengths and weaknesses. These are the fundamental areas of focus in SWOT analysis.

SWOT analysis stands at the core of strategic management. It is important to note that strengths and weaknesses are intrinsic (potential) value creating skills or assets or the lack thereof, relative to competitive forces. Opportunities and threats, however, are external factors that are not created by the company, but emerge as a result of the competitive dynamics caused by 'gaps' or 'crunches' in the market.

We had briefly mentioned about the meaning of the term's opportunities, threats, strengths and weaknesses. We revisit the same for purposes of SWOT analysis.

1. **Opportunities:** An opportunity is a major favourable situation in a firm's environment. Examples include market growth, favourable changes in competitive or regulatory framework, technological developments or demographic changes, increase in demand, opportunity to introduce products in new markets, turning R&D into cash by licensing or selling patents etc. The level of detail and perceived degree of realism determine the extent of opportunity analysis.
2. **Threats:** A threat is a major unfavourable situation in a firm's environment. Examples include increase in competition; slow market growth, increased power of buyers or suppliers, changes in regulations etc. These forces pose serious threats to a company because they may cause lower sales, higher cost of operations, higher cost of capital, inability to make break-even, shrinking margins or profitability etc. Your competitor's opportunity may well be a threat to you.

3. **Strengths:** Strength is something a company possesses or is good at doing. Examples include a skill, valuable assets, alliances or cooperative ventures, experienced sales force, easy access to raw materials, brand reputation etc. Strengths are not a growing market, new products, etc.
4. **Weaknesses:** A weakness is something a company lacks or does poorly. Examples include lack of skills or expertise, deficiencies in assets, inferior capabilities in functional areas etc. Though weaknesses are often seen as the logical 'inverse' of the company's threats, the company's lack of strength in a particular area or market is not necessarily a relative weakness because competitors may also lack this particular strength.

Carrying out SWOT Analysis:

The first thing that a SWOT analysis does is to evaluate the strengths and weaknesses in terms of skills, resources and competencies. The analyst then should see whether the internal capabilities match with the demands of the key success factors. The job of a strategist is to capitalize on the organisation's strengths while minimizing the effects of its weaknesses in order to take advantage of opportunities and overcome threats in the environment. SWOT analysis for a typical firm is given below Table.

Strengths	**Weaknesses**
• Strong brand image • High quality products • Latest technology • High intellectual capital • Cordial industrial relations	• Weak distribution network • Narrow product lines • Rising costs • Poor marketing plan
Opportunities	**Threats**
• New markets • Profitable new acquisitions • R&D skills in new areas • New businesses	• Increase in competition • Barriers to entry • Change in consumer tastes • New or substitute products • Threat of takeover

Steps in SWOT Analysis:

The three important steps in SWOT analysis are:

1. Identification
2. Conclusion
3. Translation

1. Identification:

(a) Identify company resource strengths and competitive capabilities

(b) Identify company resource weaknesses and competitive deficiencies

(c) Identify company's opportunities

(d) Identify external threats

2. Conclusion:

(a) Draw conclusions about the company's overall situation

3. Translation: Translate the conclusions into strategic actions by acting on them:

a) Match the company's strategy to its strengths and opportunities

b) Correct important weaknesses

c) Defend against external threats

In devising a SWOT analysis, there are several factors that will enhance the quality of the material:

1. Keep it brief, pages of analysis are usually not required.
2. Relate strengths and weaknesses, wherever possible, to industry key factors for success.
3. Strengths and weaknesses should also be stated in competitive terms, that is, in comparison with competitors.
4. Statements should be specific and avoid blandness.
5. Analysis should reflect the gap, that is, where the company wishes to be and where it is now.
6. It is important to be realistic about the strengths and weaknesses of one's own and competitive organisations.

Probably the biggest mistake that is commonly made in SWOT analysis is to provide a long list of points but little logic, argument and evidence. A short list with each point well argued is more likely to be convincing.

Advantages and Limitations:

Advantages:

1. It is simple.
2. It portrays the essence of strategy formulation: matching a firm's internal strengths and weaknesses with its external opportunities and threats.
3. Together with other techniques like Value Chain Analysis and RBV, SWOT analysis improves the quality of internal analysis.

Limitations:

1. It gives a static perspective, and does not reveal the dynamics of competitive environment.
2. SWOT emphasizes a single dimension of strategy (i.e. strength or weakness) and ignores other factors needed for competitive success.
3. A firm's strengths do not necessarily help the firm create value or competitive advantage.
4. SWOT's focus on the external environment is too narrow.
5. Hill and Westbrook criticize SWOT analysis by saying that it is not a panacea. According to them, **some of the criticisms against SWOT analysis are:**
    a. It generates lengthy lists
    b. It uses no weights to reflect priorities
    c. It uses ambiguous words and phrases
    d. The same factor can be placed in two categories (e.g. an opportunity may also be a threat).
    e. There is no obligation to verify opinions with data or analysis.
    f. It is only a simple level of analysis. There is no logical link to strategy implementation.
    g. SWOT helps only as a starting point. By itself, SWOT analysis rarely helps a firm develop competitive advantage that it can sustain over time.

In spite of the above criticism and its limitations, SWOT analysis is still a popular analytical tool used by most organisations. It is definitely a useful aid in generating alternative strategies, through what is called TOWS matrix.

Value Chain Analysis:

Every organisation consists of a chain of activities that link together to develop the value of the business. They are basically purchasing of raw materials, manufacturing, distribution, and marketing of goods and services. These activities taken together form its value chain. The value chain identifies where the value is added in the process and links it with the main functional parts of the organisation. It is used for developing competitive advantage because such chains tend to be unique to an organisation. It then attempts to make an assessment of the contribution that each part makes to the overall added value of the business. Essentially, Porter linked two areas together:

1. the added value that each part of the organisation contributes to the whole organisation; and

2. the contribution that each part makes to the competitive advantage of the whole organisation.

In a company with more than one product area, the analysis should be conducted at the level of product groups, not at corporate strategy level.

Value Chain thus views the organisation as a chain of value-creating activities. Value is the amount that buyers are willing to pay for what a product provides them. A firm is profitable to the extent the value it receives exceeds the total cost involved in creating its products. Creating value for buyers that exceeds the cost of production (i.e. margin) is a key concept used in analysing a firm's competitive position.

According to Porter, customer value is derived from three basic sources.

1. Activities that differentiate the product
2. Activities that lower its costs
3. Activities that meet the customer's need quickly.

Competitive advantage, argues Michael Porter (1985), can be understood only by looking at a firm as a whole, and cost advantages and successful differentiation are found in the chain of activities that a firm performs to deliver value to its customers.

Analysis:

According to Porter, value chain activities are divided into two broad categories, as shown in the figure.

1. Primary activities
2. Support activities

Primary activities contribute to the physical creation of the product or service, its sale and transfer to the buyer and its service after the sale.

Support activities include such activities as procurement, HR etc. which either add value by themselves or add value through primary activities and other support activities.

Advantage or disadvantage can occur at any one of the five primary and four secondary activities, which together form the value chain for every firm.

Primary Activities

Inbound Logistics

These activities focus on inputs. They include material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers of inputs and raw materials.

Operations

These include all activities associated with transforming inputs into the final product, such as production, machining, packaging, assembly, testing, equipment maintenance etc.

Outbound Logistics

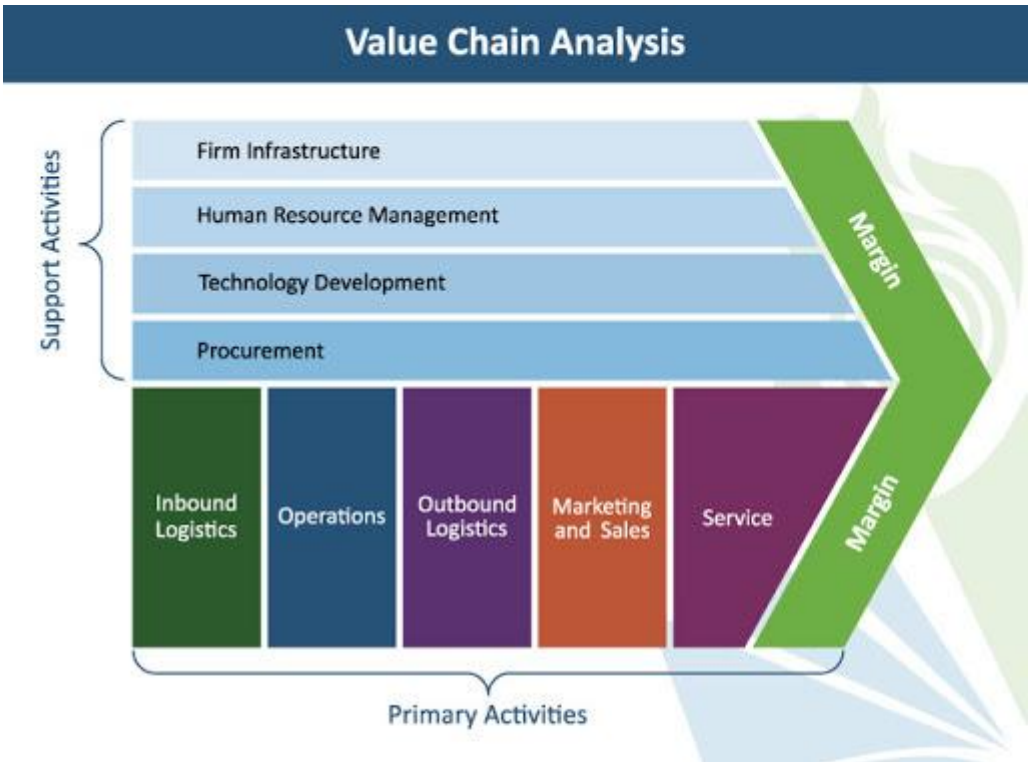
These activities are associated with collecting, storing, physically distributing the finished products to the customers. They include finished goods warehousing, material handling and delivery, vehicle operation, order processing and scheduling.

Marketing and Sales

These activities are associated with purchase of finished goods by the customers and the inducement used to get them buy the products of the company. They include advertising, promotion, sales force, channel selection, channel relations and pricing.

Services

This includes all activities associated with enhancing and maintaining the value of the product. Installation, repair, training, parts supply and product adjustment are some of the activities that come under services.



Support Activities:

Procurement:

Activities associated with purchasing and providing raw materials, supplies and other consumable items as well as machinery, laboratory equipment, office equipment etc.

Porter refers to procurement as a secondary activity, although many purchasing gurus would argue that it is (at least partly) a primary activity. Included are such activities as purchasing raw materials, servicing, supplies, negotiating contracts with suppliers, securing building leases and so on.

Technology Development

Activities relating to product R&D, process R&D, process design improvements, equipment design, computer software development etc.

Human Resource Management

Activities associated with recruiting, hiring, training, development, compensation, labour relations, development of knowledge-based skills etc.

Firm Infrastructure

Activities relating to general management, organisational structure, strategic planning, financial and quality control systems, management information systems etc.

Johnson and Sholes (2002) observe that few organisations undertake all activities from production of raw materials to the point–of–sale of finished products themselves. But the value chain exercise must incorporate the whole process, that is, the entire value system. This means, for example, that even if an organisation does not produce its own raw materials, it must nevertheless seek to identify the role and impact of its supply sources on the final product. Similarly, even if it is not responsible for after-sales service, it must consider how the performance of those who deliver the service contribute to overall product/service cost and quality.

Conducting a Value Chain Analysis:

Value chain analysis involves the following steps.

Identify Activities

The first step in value chain analysis is to divide a company's operations into specific activities and group them into primary and secondary activities. Within each category, a firm typically performs a number of discrete activities that may reflect its key strengths and weaknesses.

Allocate Costs

The next step is to allocate costs to each activity. Each activity in the value chain incurs costs and ties up time and assets. Value chain analysis requires managers to assign costs and assets to each activity. It views costs in a way different from traditional cost accounting methods. The different method is called activity-based costing.

Identify the Activities that Differentiate the Firm

Scrutinizing the firm's value chain not only reveals cost advantages or disadvantages, but also identifies the sources of differentiation advantages relative to competitors.

Examine the Value Chain

Once the value chain has been determined, managers need to identify the activities that are critical to buyer satisfaction and market success. This is essential at this stage of the value chain analysis for the following reasons:

1. If the company focuses on low-cost leadership, then managers should keep a strict vigil on costs in each activity. If the company focuses on differentiation, advantage given by each activity must be carefully evaluated.
2. The nature of value chain and the relative importance of each activity within it, vary from industry to industry.
3. The relative importance of value chain can also vary by a company's position in a broader value system that includes value chains of upstream suppliers and downstream distributors and retailers.
4. The interrelationships among value-creating activities also need to be evaluated.

The final basic consideration in applying value chain analysis is the need to use a comparison when evaluating a value activity as a strength or weakness. In this connection, RBV and SWOT analysis will supplement the value chain analysis.

To get the most out of the value-chain analysis, as already noted, one needs to view the concept in a broader context. The value chain must also include the firm's suppliers, customers and alliance partners. Thus, in addition to thoroughly understanding how value is created within the organisation, one must also know how value is created for other organisations involved in the overall supply chain or distribution channel in which the firm participates.

Therefore, in assessing the value chains there are two levels that must be addressed.

1. Interrelationships among the activities within the firm.

2. Relationships among the activities within the firm and with other organisations that are a part of the firm's expanded value chain.

Usefulness of the Value Chain Analysis

The value chain analysis is useful to recognize that individual activities in the overall production process play an important role in determining the cost, quality and image of the end-product or service. That is, each activity in the value chain can contribute to a firm's relative cost position and create a basis for differentiation, which are the two main sources of competitive advantage. While a basic level of competence is necessary in all value chain activities, management needs to identify the core competences that the organisation has or needs to have to compete effectively. Analysing the separate activities in the value chain helps management to address the following issues:

1. Which activities are the most critical in reducing cost or adding value? If quality is a key consumer value, then ensuring quality of supplies would be a critical success factor.
2. What are the key cost or value drivers in the value chain?
3. What linkages help to reduce cost, enhance value or discourage imitation?
4. How do these linkages relate to the cost and value drivers?

Porter identified the following as the most important cost and value drivers:

Cost Drivers

1. Economies of scale
2. Pattern of capacity utilization (including the efficiency of production processes and labour productivity)
3. Linkages between activities (for example, timing of deliveries affects storage costs, just-in time system minimizes inventory costs)
4. Interrelationships (for example, joint purchasing by two units reduces input costs)
5. Geographical location (for example, proximity to supplies reduces input costs)
6. Policy choices (such as the choices on the product mix, the number of suppliers used, wage costs, skills requirements and other human resource policies affect costs)
7. Institutional factors (which include political and legal factors, each of which can have a significant impact on costs).

Value Drivers:

Value drivers are similar to cost drivers, but they relate to other features (other than low price) valued by buyers. Identifying value derivers comes from understanding customer requirements, which may include:

1. Policy choices (choices such as product features, quality of input materials, provision of customer services and skills and experience of staff).
2. Linkages between activities (for example, between suppliers and buyers; sales and aftersales staff).

The cost and value drivers vary between industries. The value chain concept shows that companies can gain competitive advantage by controlling cost or value drivers and/or reconfiguring the value chain, that is, a better way of designing, producing, distributing or marketing a product or service. For example, Ryanair has become one of the most profitable airlines in Europe through concentrating on the parts of its value chain, such as ticket transaction costs, no frills etc.

Organisational Capability Factors:

Organisations capabilities lies in its resources. The resources are the means by which an organisation generates value. It is this value that is then distributed for various purposes. Resources and capabilities of a firm can be best explained with the help of Resource Based View (RBV) of a firm which is popularized by Barney. RBV considers the firm as a bundle of resources – tangible resources, intangible resources, and organisational capabilities. Competitive advantage, according to this view, generally arises from the creation of bundles of distinctive resources and capabilities.

Resources:

A ‘resource’ can be an asset, skill, process or knowledge controlled by an organisation. From a strategic perspective, an organisation’s resources include both those that are owned by the organisation and those that can be accessed by the organisation to support its strategies. Some strategically important resources may be outside the organisation’s ownership, such as its network of contacts or customers.

Typically, resources can be grouped into four categories:

1. ***Physical resources*** include plant and machinery, land and buildings, production capacity etc.
2. ***Financial resources*** include capital, cash, debtors, creditors etc.
3. ***Human resources*** include knowledge, skills and adaptability of human resources.
4. ***Intellectual capital*** is an intangible resource of an organisation. This includes the knowledge that has been captured in patents, brands, business systems, customer databases and relationships with partners. In a knowledge-based economy, intellectual capital is likely to be the major asset of many organisations.

Capabilities

Resources are not very productive on their own. They need organisational capabilities. Organisational capabilities are the skills that a firm employs to transform inputs into outputs. They reflect the ability of the firm in combining assets, people and processes to bring about the desired results. Prahalad and Hamel describe an organisational competence as a “bundle of skills and technologies”, which are integrated in people skills and business processes. Capabilities are, therefore a function of the firm’s resources, their application and organisation, internal systems and processes, and firm specific skill sets. Capabilities are rarely unique, and can be acquired by other firms as well in that industry. Some of these capabilities may become "distinctive competencies", when a firm performs them better than its rivals.

Core Competence:

Superior performance does not merely come from resources alone because they can be imitated or traded. Superior performance comes by the way in which the resources are deployed to create competences in the organisation's activities. For example, the knowledge of an individual will not improve an organisation's performance unless he or she is allowed to work on particular tasks which exploit that knowledge. Although an organisation will need to achieve a threshold level of competence in all of the activities and processes, only some will become core competences. Core competence refers to that set of distinctive competencies that provide a firm with a sustainable source of competitive advantage. Core competencies emerge over time, and reflect the firm's ability to deploy different resources and capabilities in a variety of contexts to gain and sustain competitive advantage.

Core competences are activities or processes that are critically required by an organisation to achieve competitive advantage. They create and sustain the ability to meet the critical success factors of particular customer groups better than their competitors in ways that are difficult to imitate. In order to achieve this advantage, core competences must fulfil the following criteria. **It must be:**

1. an activity or process that provides customer value in the product or service features.
2. an activity or process that is significantly better than competitors.
3. an activity or process that is difficult for competitors to imitate.

An organisation uses different types of resources and exhibits a certain type of organisational capabilities to leverage those resources to bring about a competitive advantage, as shown in Figure.

It is important to emphasize that resources by themselves do not yield a competitive advantage. Those resources need to be integrated into value creating activities. Thus, the central theme of RBV is that competitive advantage is created and sustained through the bundling of several resources in unique combinations. Thus,

1. Competence is something an organisation is good at doing.
2. Core competence is a proficiently performed internal activity.
3. Distinctive competence is an activity that a company performs better than its rivals.
4. Distinctive competencies become the basis for competitive advantage.

Barney, in his VRIO framework of analysis, suggests four questions to evaluate a firm's key resources.

1. **Value:** Does it provide competitive advantage?
2. **Rareness:** Do other competitors possess it?
3. **Imitability:** Is it costly for others to imitate?
4. **Organisation**: Is the firm organised to exploit the resource?

If the answer to these questions is "yes" for a particular resource, that resource is considered a strength and a distinctive competence.

Using Resources to Gain Competitive Advantage: Grant proposes a five-step resource-based approach to strategy analysis.

1. Identify and classify the firm's resources in terms of strengths and weaknesses.
2. Combine the firm's strengths into specific capabilities.
3. Appraise the profit potential of these resources and capabilities.
4. Select the strategy that best exploits the firm's resources and capabilities relative to external opportunities.
5. Identify resource gaps and invest in overcoming weaknesses.

UNIT-V

STRUCTURE AND CONTROLS WITH ORGANISATIONS

Organisational structure and controls, evolutionary patterns of strategy and organisational structure, leadership implications for strategy, entrepreneurial implications for strategy.

Introduction:

Strategic evaluation and control are the final phase in the process of strategic management. Its basic purpose is to ensure that the strategy is achieving the goals and objectives set for the strategy. It compares performance with the desired results and provides the feedback necessary for management to take corrective action.

According to Fred R. David, strategy evaluation includes three basic activities (1) examining the underlying bases of a firm's strategy, (2) comparing expected results with actual results, and (3) taking corrective action to ensure that performance conforms to plans. Sometime, the best formulated strategies become obsolete as a firm's external and internal environments change. Managers should, therefore, identify important milestones and set strategic thresholds to assist them in knowing the changes in the underlying assumptions of a strategy and, if necessary, alter the basic strategic direction. The evaluation process thus works as an early warning system for the organisation.

Strategic evaluation generally operates at two levels – strategic and operational level. At the strategic level, managers try to examine the consistency of strategy with environment. At the operational level, the focus is on finding how a given strategy is effectively pursued by the organisation. For this purpose, different control systems are used both at strategic and operational levels.

Nature of Strategic Evaluation and Control:

Strategic evaluation and control are defined as the process of determining the effectiveness of a given strategy in achieving the organisational objectives and taking corrective actions wherever required. According to Pearce and Robinson, strategic control is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments. In contrast to post-action control, strategic control seeks to guide action on behalf of the strategies. as they are taking place and when the end result is still several years off.

Types of General Control Systems

Basically, there are three types of general control systems:

1. Output control (i.e. control on actual performance results)
2. Behaviour control (i.e. control on activities that generate the performance)
3. Input control (i.e. control on resources that are used in performance)

Output Control

Output controls specify what is to be accomplished by focusing on the end result. This control is done through setting objectives, targets or milestones for each division, department, section and executives, and measuring actual performance. These controls are appropriate when specific output measures haven't been agreed on. Often rewards and incentives are linked to performance goals.

Example: Sales quotas, specific cost reduction or profit targets, milestones or deadlines for completion of projects are examples of output controls.

Behaviour Control

Behaviour controls specify how something is to be done. This control is done through policies, rules, standard operating practices and orders from superiors. These controls are the most appropriate when performance results are hard to measure. Rules standardise the behaviour and make outcomes predictable. If employees follow rules, then actions are performed and decisions handled the same way time and again. The result is predictability and accuracy, which is the aim of all control systems.

The main mechanisms of behaviour control are:

1. Operating budgets
2. Standard operating practices
3. Rules and procedures

Example: One example of an increasingly popular behaviour control is the ISO 9000 Standards Series on quality management and assurance developed by the International Standards Association of Geneva, Switzerland. The ISO 9000 series is a way of documenting a company's quality operations, and strictly complying with it. Many corporations worldwide view ISO 9000 certification as assurance that the firm sells quality products.

Input Control

Input controls specify the amount of resources, such as knowledge, skills, abilities, of employees to be used in performance. These controls are most appropriate when output is difficult to measures.

Basic Characteristics of Effective Evaluation and Control System

Effective strategy evaluation systems must meet several basic requirements. They must be:

1. **Simple:** Strategy evaluation must be simple, not too comprehensive and not too restrictive. Complex systems often confuse people and accomplish little. The test of an effective evaluation system is its simplicity not its complexity.
2. **Economical:** Strategy evaluation activities must be economical. Too many controls can do more harm than good.
3. **Meaningful:** Strategy evaluation activities should be meaningful. They should specifically relate to a firm's objectives. They should provide managers with useful information about tasks over which they have control and influence.
4. **Timely:** Strategy evaluation activities should provide timely information. For example, when a firm has diversified into a new business by acquiring another firm, evaluative information may be needed at frequent intervals. Time dimension of control must coincide with the time span of the event being measured.

5. **Truthful:** Strategy evaluation should be designed to provide a true picture of what is happening. Information should facilitate action and should be directed to those individuals who need to take action based on it.
6. **Selective:** The control systems should focus on selective criteria like key important factors which are critical to performance. Insignificant deviations need not be focused.
7. **Flexible:** They must be flexible to take care of changing circumstances.
8. **Suitable:** Control systems should be suitable to the needs of the organisation. They must conform to the nature and needs of the job and area to be controlled.
9. **Reasonable:** Control standards must be reasonable. Frequent measurement and rapid reporting may frustrate control.
10. **Objective:** A control system would be effective only if it is unbiased and impersonal. It should not be subjective and arbitrary. Otherwise, people may resent them.
11. **Acceptable**: Controls will not work unless they are acceptable to those who apply them.
12. **Foster Understanding and Trust:** Control systems should not dominate decisions. Rather they should foster mutual understanding, trust and common sense. No department should fail to cooperate with another in evaluating and control of strategies.
13. **Fix Responsibility for Failure:** An effective control system must fix responsibility for failure. Detecting deviations would be meaningless unless one knows where they are occurring and who is responsible for them. Control system should also pinpoint what corrective actions are needed.

There is no ideal strategy evaluation and control system. The final design depends on the unique characteristics of an organisation’s size, management style, purpose, problems and strengths.

Strategic Control

Strategic control is a type of “steering control”. We have to track the strategy as it is being implemented, detect any problems or changes in the predictions made, and make necessary adjustments. This is especially important because the implementation process itself takes a long time before we can achieve the results. Strategic controls are, therefore, necessary to steer the firm through these events.

Types of Strategic Control

There are four types of strategic controls:

1. Premise control
2. Strategic surveillance
3. Special alert control
4. Implementation control

Premise Control

Strategy is built around several assumptions or predictions, which are called planning premises. Premise control checks systematically and continuously whether the assumptions on which the strategy is based are still valid. If a vital premise is no longer valid, the strategy may have to be changed.

The sooner these invalid assumptions are detected and rejected, the better are the chances of changing the strategy. The premise control is concerned with two types of factors:

1. Environmental factors

2. Industry factors

1. Environmental Factors: The performance of a firm is affected by changes in environmental factors like the rate of inflation, change in technology, government regulations, demographic and social changes etc. Although the firm has little or no control over environmental factors, these factors have considerable influence over the success of the strategy because strategies are generally based on key assumptions about them.

Example: A firm may assume massive increase in demand, and embark on an expansion plan. If suddenly there is recession and demand for the products of the firm fall down, it may have to change its strategic direction.

2. Industry Factors: Industry factors also affect the performance of a company. Competitors, suppliers, buyers, substitutes, new entrants etc. are some of the industry factors about which assumptions are made. If any of these assumptions go wrong, strategy may have to be changed.

Strategic Surveillance:

Strategic surveillance is a broad-based vigilance activity in all daily operations both inside and outside the organisation. With such vigilance, the events that are likely to threaten the course of a firm’s strategy can be tracked. Business journals, trade conferences, conversations, observations etc. are some of the information sources for strategic surveillance.

Special Alert Control:

Sudden, unexpected events can drastically alter the course of the firm’s strategy. Such events trigger an immediate and intense reconsideration of the firm’s strategy.

Example: The tragic events of September 11, 2001, created havoc in many US companies, especially the airline and hotel industry. Sudden acquisition of a leading competitor or an unexpected product difficulty (like defective tyres of Firestone) etc. may shatter a firm’s strategy and require a rapid reconsideration of the strategy. Generally, firms develop contingency plans along with crisis teams to respond to such sudden, unexpected events.

Implementation Control

Strategy implementation takes place as a series of steps, programmes, investments and moves that occur over an extended period of time. Resources are allocated, essential people are put in place, special programmes are undertaken and functional areas initiate strategy related activities. Implementation control is aimed at assessing whether the plans, programmes and policies are actually guiding the organisation towards the predetermined objectives or not. Implementation control assesses whether the overall strategy should be changed in the light of the results of specific units and individuals involved in implementation of the strategy. Two important methods to achieve implementation control are:

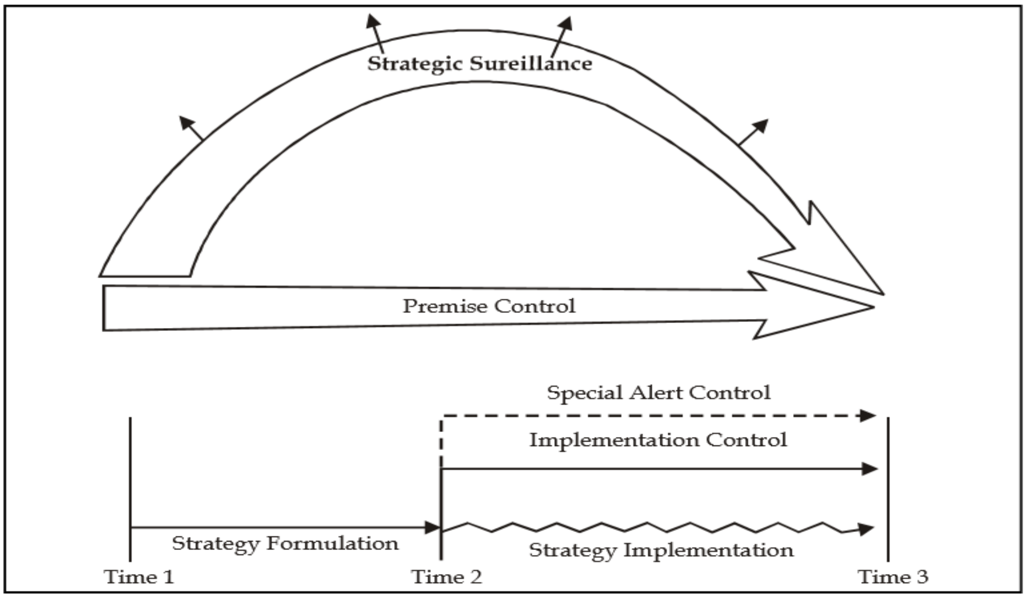
1. Monitoring strategic thrusts
2. Milestone reviews

1.Monitoring Strategic Thrusts: Strategic thrusts are small critical projects that need to be done if the overall strategy is to be accomplished. They are critical factors in the success of strategy. One approach is to agree early in the planning process on which thrusts are critical factors in the success of the strategy.

Managers responsible for these -implementation controls will single them out from other activities and observe them frequently. Another approach is to use stop/go assessments that are- linked to a series of these thresholds (time, costs, success etc.) associated with a particular thrust.

2. Milestone Reviews: Milestones are critical events that should be reached during strategy implementation. These milestones may be fixed on the basis of.

a) Critical events
b) Major resource allocations
c) Time frames etc.



Network controls like PERT/CPM for project implementation are examples of milestone reviews. After doing a milestone review, managers often undertake a full-scale reassessment of the strategy to decide whether to continue or refocus the firm’s strategy.

Implementation control is also done through operational control systems like budgets, schedules, key success factors etc.

The major characteristics of the above four types of strategic control are summarised in figure. Strategic controls are, thus, designed to systematically and continuously monitor the implementation of the strategy over long periods to decide whether the strategic direction should be changed in the light of unfolding events. However, for post-action evaluation and control over short periods, the firm needs operational controls.

Approaches to Strategic Control

According to Dess, Lumpkin and Taylor, there are two approaches to strategic control.

Traditional Approach

Traditional approach to strategic control is sequential:

1. Strategies are formulated and top management sets goals
2. Strategies are implemented
3. Performance is measured against goals
4. Corrective measures are taken, if there are deviations.

Control is based on a feedback loop from performance measurement to strategy formulation. This process typically involves lengthy time lags and often tied to a firm's annual planning cycle. This reactive measure is not sufficient to control a strategy. As already explained, this is because a strategy takes a long period for implementation and to produce results. The uncertain future requires continuous evaluation of the planning premises and strategy implementation. There is a better contemporary approach for strategic control.

Contemporary Approach

Under this approach, adapting to and anticipating both internal and external environment change is an integral part of strategic control. This approach addresses the assumptions and premises that provide the foundation for the strategy. The key question addressed here is: do the organisation's goals and strategies still fit within the context of the current environment? This involves two key actions:

1. Managers must continuously scan and monitor the external and internal environment
2. Managers must continuously update and challenge the assumptions underlying the strategy. This may even need changes in the strategic direction of the firm.

While strategic control requires the contemporary approach, operational control is generally done through traditional approach.

Operational Control

Operational control provides post-action evaluation and control over short periods. They involve systematic evaluation of performance against predetermined objectives. The major differences between strategic control and operational control are summarised in table.

Table 14.1: Differences between Strategic Control and Operational Control

Attribute	Strategic control	Operational control
1. Basic question	"Are we moving in the right direction?"	"How are we performing?"
2. Aim	Proactive continuous questioning of the basic direction of strategy	Allocation and use of orgnisational resources
3. Main concern	"Steering" the orgnisation's future direction	Action control
4. Focus	External environment	Internal orgnisation
5. Time horizon	Long-term	Short-term
6. Exercise of control	Exclusively by top management, may be through lower-level support	Mainly by executives of middle-level management on the direction of top management
7. Main techniques	Environmental scanning, information gathering, questioning and review	Budgets, schedules and MBO

To be effective, operational control systems, involve four steps common to all post-action controls:

1. Set standards of performance
2. Measure actual performance
3. Identify deviations from standards set
4. Initiate corrective action

Setting of Standards

The first step in the control process is setting of standards. Standards are the targets against which the actual performance will be measured. They are broadly classified into quantitative standards and qualitative standards.

Quantitative

These are expressed in physical or monetary terms in respect of production, marketing, finance etc. They may relate to:

1. Time standards
2. Cost standards
3. Productivity standards
4. Revenue standards

Qualitative

Qualitative criteria are also important in setting standards. Human factors such as high absenteeism and turnover rates, poor production quality or low employee satisfaction can be the underlying causes of declining performance. So, qualitative standards also need to be established to measure performance.

Measurement of Performance

The second step in operational control is the measurement of actual performance. Here, the actual performance is measured against the standards fixed. Standards of performance act as the benchmark against which the actual performance is to be compared. It is important, however, to understand how the measurement of performance actually takes place. Operationally measuring is done through accounting, reporting and communication systems. A variety of evaluation techniques are used for this purpose, which are explained in the next section. The other important aspects of measurement relate to:

Difficulties in Measurement

There are several activities for which it is difficult to set standards and measure performance.

Example: Performance of a worker in terms of units produced in a day, week or month can easily be measured. On the other hand, it is not easy to measure the contribution of a manager or to assess departmental performance. The solution lays in developing verifiable objectives, stated in quantitative and qualitative terms, against which performance can be measured.

Timing of Measurement

Timing refers to the point of time at which measurement should take place. Delay in measurement or measuring before time can defeat the very purpose of measurement. So measurement should take place at critical points in a task schedule, which could be at the end of a definable activity or the conclusion of a task.

Example: In a project implementation schedule, there could be several critical points at which measurement would take place.

Periodicity in Measurement

Another important issue in measurement is "how often to measure", Generally, financial statements like budgets, balance-sheets, and profit and loss accounts are prepared every year.

But there are certain reports like production reports, sales reports etc. which are done on a daily, weekly, monthly basis.

Identifying Deviations

The third step in the control process is identifying deviations. The measurement of actual performance and its comparison with standards of performance determines the degree of deviation or variation between actual performance and the standard. Broadly, the following three situations may arise:

1. The actual performance matches the standards
2. The actual performance exceeds the standards
3. The actual performance falls short of the standards

The first situation is ideal, but sometimes may not be realistic. Generally, a range of tolerance limits within which the results may be accepted satisfactorily, are fixed and deviations from it are considered as variance.

The ***second situation*** is an indication of superior performance. If exceeding the standards is considered unusual, a check needs to be made to test the validity of tests and the measurement system.

The ***third type of situation***, which indicates shortfall in performance, should be taken seriously and strategists need to pinpoint the areas where the performance is below standard and go into the causes of deviation. The analysis of variance is generally presented in a format called 'variance chart' and submitted to the top management for their evaluation. After noting the deviations, it is necessary to find the causes of deviation, which can be ascertained through the following questions: (Thomas)

1. Is the cause of deviation internal or external?
2. Is the cause random or expected?
3. Is the deviation temporary or permanent?

Analysis of variance leads to a plan for corrective action.

Taking Corrective Action

The last and final step in the operational control process is taking corrective action. Corrective action is initiated by the management to rectify the shortfall in performance. If the performance is consistently low, the strategists have to do an in-depth analysis and diagnosis to isolate the factors responsible for such low performance and take appropriate corrective actions. There are three courses for corrective action:

1. Checking performance
2. Checking standards
3. Reformulating strategies, plans and objectives.

Checking Performance

Performance can be affected adversely by a number of factors such as inadequate resource allocation, ineffective structure or systems, faulty programmes, policies, motivational schemes, inefficient leadership styles etc. Corrective actions may therefore include the change in strategy, systems, structure, compensation practices, training programmes, redesign of jobs, replacement of personnel, re-establishment of standards, budgets etc.

Checking Standards

When there is nothing significantly wrong with performance, then the strategist has to check the standards. A manager should not mind revising the standards when the standards set are unreasonably low or high level. Higher standards breed discontentment and frustration. Low standards make employee unproductive. So, standards check may result in lowering of standards if it is concluded that organisational capabilities do not match the performance requirements. It may also lead to elevation of standards if the conditions have improved to allow better performance. For example, better equipment, improved systems, upgraded skills etc. need modification in existing standards.

Reformulating Strategies, Plans and Objectives

A more radical and infrequent corrective action is to reformulate strategies, plans and objectives. Strategic control, rather than operational control, generally leads to changes in strategic direction, which will take the strategist back to the process of strategy formulation and choice. Techniques like total quality management (TQM) and ISO 9000 standards series are examples of very good control mechanisms. These are explained in below paragraph.

TQM is a management philosophy that aims at total customer satisfaction through continuous improvement of all organisational processes. The main elements of TQM are:

1. **Intense focus on the customer:** The customer includes not only outsiders but also internal customers.

   Concern for continuous improvement: TQM is committed to improve quality continuously.
2. **Improvement in the quality of everything the organisation does:** TQM relates not only to the final product but also how the organisation handles deliveries, responds to complaints etc.
3. **Accurate measurement:** TQM uses statistical techniques to measure every critical performance variable in the organisation's operations. These performance variables are then compared against standards or benchmarks to identify problems. The problems are traced to their roots, and causes are eliminated.
4. **Empowerment of Employees:** TQM involves all the employees in the improvement process. Teams are widely used in TQM programmes as empowerment vehicles for finding and solving problems.

Techniques of Strategic Control:

Organisations use many techniques or mechanisms for strategic control. Some of the important mechanisms are:

1. **Management Information systems:** Appropriate information systems act as an effective control system. Management will come to know the latest performance in key areas and take appropriate corrective measures.
2. **Benchmarking:** It is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. Best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control. Through this method, performance can be evaluated continually till it reaches the best practice level. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers firms a tangible method to evaluate performance.
3. **Balanced scorecard:** It is a method based on the identification of four key performance measures i.e. customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of financial and non-financial parameters are taken into account for evaluation.

4. **Key factor rating:** It is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. This is quite a comprehensive method as it takes a holistic view of the performance areas in an organisation.
5. **Responsibility Centres:** Control systems can be established to monitor specific functions, projects or divisions. Responsibility centres are used to isolate a unit so that it can be evaluated separately from the rest of the corporation. There are five major types of responsibility centres: Cost centres, Revenue centres, Expense centres, Profit centres and Investment centres. Each responsibility centre has its own budget and is evaluated on the basis of its performance.
6. **Network techniques:** Network techniques such as Programme Evaluation and Review Technique (PERT), Critical Path Method (CPM), and their variants, are used extensively for the operational controls of scheduling and resource allocation in projects. When network techniques are modified for use as a cost accounting system, they become highly effective operational controls for project costs and performance.
7. **Management by Objectives (MBO):** It is a system proposed by Drucker, which is based on a regular evaluation of performance against objectives which are decided upon mutually by the superior and the subordinate. By the process of consultation, objective-setting leads to the establishment of a control system that operates on the basis of commitment and self-control. Thus, the scope of MBO to be used as an operational control is quite extensive.
8. **Memorandum of Understanding:** This is an agreement between a PSU and the administrative ministry of the government in which both specify their respective commitments and responsibilities. The system works as an effective control on the performance of the PSU.

Role of Organisational Systems in Evaluation

There are six types of organisational system involved in evaluation.

1. **Information System:** Organisations evaluate by comparing actual performance with standards. Purpose of information management system is to enable managers to keep the track of performance through control reports. Whether strategic surveillance or financial analysis, are based on information system to provide

relevant & timely data to managers to allow them to evaluate performance & strategy & initiate corrective action

2. **Control System:** The control system is core of any evaluation process & is used for setting standards, measuring performance, analysing variances, & taking corrective action.
3. **Appraisal System:** This is the system that actually evaluates performance. When measuring the performance of managers, it is contribution to the organisational objectives which is sought to be measured. The evaluation process through appraisal system, measure the actual performance and provides for the control system to work.
4. **Motivation system:** The primary role of the motivation system is to induce strategically desirable behaviour so that managers are encouraged to work towards the achievement of organisational objectives. This system plays an important role in ensuring that deviations of actual performance with standards. Performance checks, which are a feedback in the evaluation process, are done through the motivation process.
5. **Development system:** The development system prepares the managers for performing strategic & operational tasks. Among the several aims of development, the most important is to match a person with the job to be performed. This in other words is matching actual performance with standards. This matching can be done provided it is known what a manager is required to do and what is deficient in terms of knowledge, skills & attitude. Such a deficiency is located through the appraisal system. The role of development system in evaluation is to help the strategists to initiate & implement corrective action.
6. **Planning System:** The evaluation process also provides feedback to planning systems for the reformulation of strategies, plans & objectives. Thus, planning system closely interacts with the evaluation process on a continual basis.

UNIT-II

FORMULATION OF STRATEGIC ACTIONS: BUSINESS LEVEL STRATEGY

Effectively managing relationships with customers, the purpose of business strategy, competitive rivalry and dynamics, a model of competitive rivalry, competitor analysis, drivers of competitive actions and responses, competitive rivalry and dynamics.

Competitive rivalry and competitive dynamics

Dylan's Candy Bar is responding to increased demand by adding more outlets in additional cities. Yet, it must also be sensitive to how competitors such as the Rocky Mountain Chocolate Factory respond and actions taken by large, well-known candy manufacturers (e.g., Hershey).

Competitive rivalry's effect on the firm's strategies is shown by the fact that a strategy's success is determined not only by the firm's initial competitive actions but also by how well it anticipates competitors' responses to them *and* by how well the firm anticipates and responds to its competitors' initial actions (also called attacks).

We can conclude that competitive dynamics within industries vary considerably and not all are affected negatively by economic recessions. Yet, changes in the market can be quite challenging as markets are complex—new competitors enter and consumer tastes change, with some of the changes likely to be long term, continuing even after good economic times return.

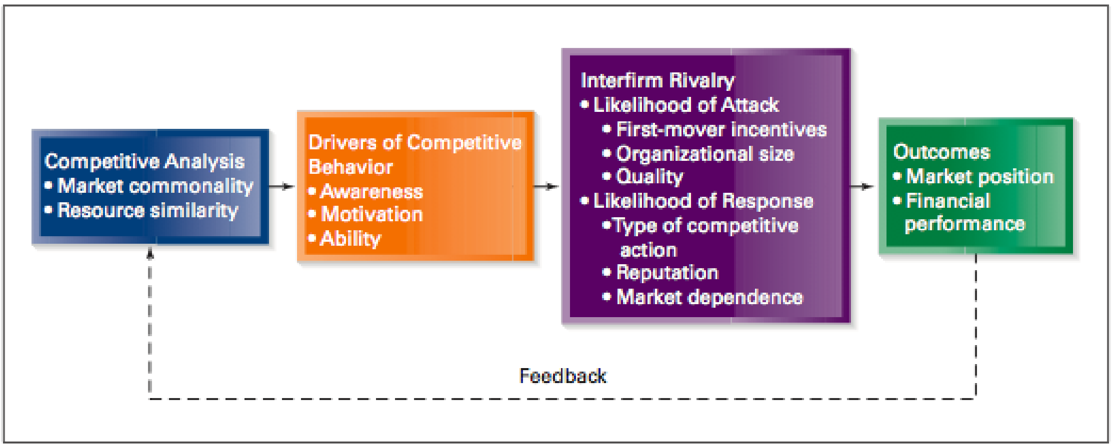
Firms interact with their competitors as part of the broad context within which they operate while attempting to earn above-average returns. The decisions firms make about their interactions with their competitors significantly affect their ability to earn above- average returns.

This chapter focuses on competitive rivalry and competitive dynamics.

- Competitive rivalry is the ongoing set of competitive actions and competitive responses that occur among firms as they maneuver for an advantageous market position.
- Competitive behavior is the set of competitive actions and responses the firm takes to build or defend its competitive advantages and to improve its market position.

A Model of Competitive Rivalry

This pattern suggests that firms are mutually interdependent, that they are affected by each other's actions and responses, and that marketplace success is a function of both individual strategies and the consequences of their use.



Straightforward model of competitive rivalry at the firm level; this type of rivalry is usually dynamic and complex. The competitive actions and responses the firm takes are the foundation for successfully building and using its capabilities and core competencies to gain an advantageous market position.

Companies can use the model to understand how to be able to predict competitors' behaviour (actions and responses) and reduce the uncertainty associated with competitors' actions.

Competitor Analysis

Competitor analyses are especially important when a firm enters a foreign market. Managers need to understand the local competition and foreign competitors currently operating in the market.

- Market Commonality: is concerned with the number of markets with which the firm and a competitor are jointly involved and the degree of importance of the individual markets to each.
- Resource Similarity: is the extent to which the firm's tangible and intangible resources are comparable to a competitor's in terms of both type and amount.

Competitive Rivalry

Understanding a competitor's awareness, motivation, and ability helps the firm to predict the likelihood of an attack by that competitor and the probability that a competitor will respond to actions taken against it.

- *Awareness,* refers to the extent to which competitors recognize the degree of their mutual inter- dependence that results from market commonality and resource similarity.
- *Motivation,* concerns the firm's incentive to take action or to respond to a competitor's attack, relates to perceived gains and losses.
- *Ability* relates to each firm's resources and the flexibility they provide.

Evaluating and understanding these factors allow the firm to refine the predictions it makes about its competitors' actions and responses.

Strategic and Tactical Actions

Firms use both strategic and tactical actions when forming their competitive actions and competitive responses in the course of engaging in competitive rivalry.

A strategic action or a strategic response is a market-based move that involve a significant commitment of organizational resources and is difficult to implement and reverse. A tactical action or a tactical response is a market-based move that is taken to fine-tune a strategy; it involves fewer resources and is relatively easy to implement and reverse.

Competitive Dynamics

The effects of varying rates of competitive speed in different markets (called slow-cycle, fast-cycle, and standard-cycle markets) on the behaviour (actions and responses) of all competitors within a given market.

Slow-cycle	The firm's competitive advantages are shielded from imitation commonly for long periods of time and where imitation is costly
Fast-cycle	The firm's capabilities that contribute to competitive advantages aren't shielded from imitation and where imitation is often rapid and inexpensive.

Standard-cycle	The firm's competitive advantages are partially shielded from imitation and imitation is moderately costly.

The empirical analysis of the impact of alliances on airline operations

The heads of the alliance departments of all airlines – that is 28 carriers at the time this survey – belonging to the alliance groupings of Star Alliance, "Wings", one world and SkyTeam were contacted to participate in a questionnaire survey. The questionnaire focused on the impact of the alliances on airlines' operation as perceived by the heads of the alliance department.

1. **The general impact**

   Almost all participants believe that joining the alliances grouping has led to an increase in traffic, load factor and revenue.

   The opinion that fares have not been influenced the rest declared that fares on routes operated jointly by partners have increased.

2. **Impact of airline alliances on passenger traffic**

   Airlines have most benefited from participation in airline alliances in the form of increase in traffic.

   Almost 90% of respondents claimed that they experienced an increase in traffic between one and two years from the inception of their partnerships with other airlines.

3. **The impact of alliance on traffic by route type**

   The results seem absolutely reasonable considering that all global carriers, especially the major ones, operate on the hub-and-spoke system and the whole alliance organization aims at increasing the hub-hub traffic, especially the high- yielding and efficient transatlantic routes.

4. **The impact of alliance on traffic by type of cooperation**

   The impact of antitrust immunity is just beginning to unfold but they consider it as a very important element as it provides airlines with ability and flexibility and possibility to coordinate their activities in scheduling and pricing.

   A very small number of Asian carriers believe that strategic alliances have no impact on traffic.

5. **The impact of alliance on traffic by alliance groupings**

   The analysis under each global alliance grouping, under airline and under geographic region to establish which group, type of carrier and geographic region has benefited most.

The results show that each of the four global alliances groupings has experienced different results according to the type of collaboration agreed amongst their member airlines.

6. **The impact of alliance on traffic by alliance groupings**

   Almost all members in the Sky team and Wings believe that the most increase in traffic has taken place on their hub-hub routes where as the corresponding percentage for one world and Star alliance is 50% and 80% respectively.

7. **The impact of alliance on traffic by airline size**

   A large proportion have experienced up to 15% increase in traffic.

   The fact that their base traffic is smaller than those of the larger carriers.

   Medium and small carriers believe frequent flyer programme cooperation and code sharing have had a significant impact on their traffic.

   Small and medium sized carriers benefit more by joining the large airline frequent flyer programme.

8. **The impact of alliance on traffic by region**

   Asian carriers consider FFP as the most important factor given that their Code Sharing agreements and Strategic Alliances are much more difficult to operate because of regulatory restrictions.

Conclusion

The questionnaire analysis indicates that both passenger traffic and load factors of all airlines show clear increase.

The impact on passenger traffic is relatively substantial and has been experienced from one to two years since the inception of alliance cooperation. The increase in traffic has mostly been experienced on hub-hub routes.

The greatest benefits from alliances result from the more advanced and integrated forms of cooperation.

UNIT-THREE

Levels of diversification and reasons, value creating diversifications, strategic acquisitions a restructuring.

Popularity of mergers and acquisitions strategies, problems in achieving acquisition success and restructuring.

Introduction:

Strategies are formulated at different levels of an organization – corporate, business and functional. Corporate level strategies occupy the highest level of strategic decision making and cover actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Top management of the organization makes strategic decisions.Thenatureofstrategicdecisionstendstobevalue-oriented,conceptualand less concrete than decisions at the business or functionallevel.

TYPOLOGIES OFSTRATEGIES

Businessesfollowdifferenttypesofstrategiestoenterthemarketandtostayandgrow in the market. A large number of strategies with different nomenclatures have been employedbydifferentbusinessesandalsosuggestedbydifferentauthorsonstrategy.

Forinstance,WilliamFGlueckandLawrenceRJauchdiscussedfourgenericstrategies including stability, growth, retrenchment and combination. These strategies have also beencalledGrandStrategies/DirectionalStrategiesbymanyotherauthors.Michael E. Porter suggested competitive strategies including Cost Leadership, Differentiation, FocusCostLeadershipandFocusDifferentiationwhichcouldbeusedbythecorporates for their different business units. Besides these, we come across functional strategies in the literature on Strategic Management and Business Policy. Functional Strategies aremeantforstrategicmanagementofdistinctfunctionssuchasMarketing,Financial, Human Resource, Logistics, Productionetc.

We can classify the different types of strategies on the basis of levels of organization, stages of business life cycle and competition as given in the table – 1

Basis of Classification	**Types**
Level	Corporate Level Business Level Functional Level
Stages of Business Life Cycle	Entry/Introduction Stage - Market Penetration Strategy Growth Stage - Growth/Expansion Strategy Maturity Stage - Stability Strategy Decline Stage - Retrenchment/ Turnaround Strategy
Competition	Competitive Strategies - Cost Leadership, Differentiation,Focus Collaboration Strategies - Joint Venture, Merger & Acquisition, Strategic Alliance

It may be noted that there is no water tight compartmentation between different typologies.Forinstance,astartuporanewenterprisemightfolloweitheracompetitive strategy i.e., entering the market where a number of rivals are already operating, or a collaborative strategy, i.e., enter into a joint venture with an established company. However, majority of startups are launched on a small scale and their main strategy is to penetrate the market and to reach the breakeven stage at the earliest and later pursue growthstrategy.

A going concern can continue with the competitive strategy or resort to collaborative strategy to ensure business growth.

Businessconglomerateshavingmultipleproductfoliosformulatestrategiesatdifferent levels, viz., corporate, business unit and functional. Corporate level strategies also known as grand strategies are meant to provide 'direction' to the company. Business level strategies are formulated for each product division known as strategic business unit. Further to implement the corporate and business level strategies, functional strategies are formulated in business areas like production/operations, marketing, finance, human resources etc. In fact, big corporates follow an elaborate system of strategy formulation, implementation and control at different levels in the company to survive and grow in the turbulent business environment. In this chapter, we shall discuss the corporate level strategies. Business level and Functional level strategies have been discussed in chapter 5 and chapter 6respectively.

The corporate strategies a firm can adopt may be classified into four broad categories:

1. Stabilitystrategy
2. Expansionstrategy
3. Retrenchmentstrategy
4. Combinationsstrategy

The basic features of the corporate strategies are as follows:

Strategy	Basic Feature
Stability	The firm stays with its current businesses and product markets; maintains the existing level of euro; and is satisfied with incrementalgrowth.
Expansion	Here, the firm seeks significant growth-maybe within the currentbusinesses;maybebyenteringnewbusinessthatare relatedtoexistingbusinesses;orbyenteringnewbusinesses thatareunrelatedtoexistingbusinesses.
Retrenchment	Thefirmretrenchessomeoftheactivitiesinsomebusiness(es), ordropsthebusinessassuchthroughsell-outorliquidation.
Combination	The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirements of thefirm.

StabilityStrategy

Oneoftheimportantgoalsofabusinessenterpriseisstability-tosafeguarditsexisting interestsandstrengths,topursuewellestablishedandtestedobjectives,tocontinueinthechosenbusinesspath,tomaintainoperationalefficiencyonasustainedbasis,to consolidatethecommandingpositionalreadyreached,andtooptimizereturnsonthe resources committed in thebusiness.

A stability strategy is pursued by a firm when:

- It continues to serve in the same or similar markets and deals in same or similar products and services.

- The strategic decisions focus on incremental improvement of functional performance

Stability strategy is not a ‘do nothing’ strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for those firms whose product have reached the maturity stage of product life cycle.Smallorganizationsmayalsofollowstabilitystrategytoconsolidatetheirmarket position and prepare for the launch of growthstrategies.

1. **Characteristics of StabilityStrategy**

- A firm opting for stability strategy stays with the same business, sameproduct-market posture and functions, maintaining same level of effort as at present.
- The endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources. The assessment of the firm is that the desired income and profits would be forthcoming through such incremental improvements in functionalefficiencies.
- Stabilitystrategydoesnotinvolvearedefinitionofthebusinessofthecorporation.
- It is basically a safety-oriented, *status quo-oriented*strategy.
- It does not warrant much of freshinvestments.
- It involves minor improvements in the product and itspackaging.
- The risk is alsoless.
- Withthestabilitystrategy,thefirmhasthebenefitofconcentratingitsresources and attention on the existing businesses/products and markets.
- Thegrowthobjectiveoffirmsemployingthisstrategyisquitemodest.Convers ely, only firms with modest growth objective choose for thisstrategy.

Major Reasons for StabilityStrategy

- A product has reached the maturity stage of the product lifecycle.
- It is less risky as it involves less changes and the staff feel comfortable with things as theyare.
- The environment faced is relativelystable.
- Expansion may be perceived as beingthreatening.

- Consolidation is sought through stabilizing after a period of rapidexpansion.

Growth/ExpansionStrategy:

Growth/Expansion strategy is implemented by redefining the business by enlarging the scope of business and substantially increasing investment in the business. It is a popular strategy that tends to be equated with dynamism, vigor, promise and success. An enterprise on the move is more agreeable stereotype than a steady-state enterprise.Itisoftencharacterizedbysignificantreformulationofgoalsanddirections, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. Expansion also includes diversifying, acquiring and merging businesses. This strategy may take the enterprise along relatively unknown and risky paths, full of promises andpitfalls.

Characteristics of Growth/ExpansionStrategy:

- Expansion strategy involves a redefinition of the business of thecorporation.
- Expansionstrategyistheoppositeofstabilitystrategy.Whileinstabilitystrateg y, rewards are limited, in expansion strategy they are very high. In the matter of risks, too, the two are the opposites of eachother.
- Expansionstrategyleadstobusinessgrowth.Afirmwithamammothgrowth ambition can meet its objective only through the expansion strategy.
- Theprocessofrenewalofthefirmthroughfreshinvestmentsandnewbusinesses/ products/markets is facilitated only by expansion strategy.
- Expansion strategy is a highly versatile strategy; it offers several permutations and combinations for growth. A firm opting for the expansion strategy can generate many alternatives within the strategy by altering its propositions regarding products, markets and functions and pick the one that suits itmost.
- Expansionstrategyholdswithinitsfoldtwomajorstrategyroutes:Intensificati on Diversification.Bothofthemaregrowthstrategies;thedifferenceliesinthewa y in which the firm actually pursues thegrowth.

Major Reasons for Growth/ExpansionStrategy

- It may become imperative when environment demands increase in pace of activity.
- Strategistsmayfeelmoresatisfiedwiththeprospectsofgrowthfromexpansion ; chief executives may take pride in presiding over organizations perceived to be growth-oriented.
- Expansion may lead to greater control over the market vis-a-viscompetitors.
- Advantages from the experience curve and scale of operations mayaccrue.

Types of Growth/ ExpansionStrategy

1. **Expansion throughDiversification**

Diversification is defined as entry into new products or product lines, new services or newmarkets,involvingsubstantiallydifferentskills,technologyandknowledge.When an established firm introduces a new product, which has little or no affinity with its presentproductlineandwhichismeantforanewclassofcustomersdifferentfromthe firm’s existing customer groups, the process is known as conglomerate diversification. Boththetechnologyoftheproductandthemarketaredifferentfromthefirm’spresent experience.

Innovative and creative firms always look for opportunities and challenges to grow, to venture into new areas of activity and to break new frontiers with the zeal of entrepreneurship. They feel that diversification offers greater prospects of growthand profitability thanexpansion.

For some firms, diversification is a means of utilizing their existing facilities and capabilities in a more effective and efficient manner. They may have excess capacity or capability in manufacturing facilities, investible funds, marketing channels, competitive standing, market prestige, managerial and other manpower, research and development, raw material sources and so forth. Another reason for diversification lies in its synergistic advantage. It may be possible to improve the sales and profits of existing products by adding suitably related or new products, because of linkages in technology and/or inmarkets.

Expansion or growth strategy can either be through intensification or diversification: Igor Ansoff gave a framework as shown in figure which describes the intensification options available to a firm.

Market Penetration Increase market share Increase product usage Increase the frequency used Increase the quantity used Find new application for current users	**Product Development** Addproductfeatures,productrefinement Develop a new-generation product Developnewproductforthesamemarket
Market Development Expand geographically target new segments	**Diversification involving new products and new markets** Related / Unrelated

Intensification

1. **MarketPenetration:**Highlycommonexpansionstrategyismarketpenetration/ concentration on the current business. The firm directs its resources to the profitable growth of its existing product in the existingmarket.
2. **MarketDevelopment:**Itconsistsofmarketingpresentproducts,tocustomers in relatedmarketareasbyaddingdifferentchannelsofdistributionorbychanging the content of advertising or the promotionalmedia.
3. **Product Development:** Product development involves substantialmodification of existing products or creation of new but related items that can be marketed to current customers through establishchannels.

(a) Diversification

Diversification endeavors can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavors have been classified into four broad categories:

- **I.** Vertically integrateddiversification
- **II.** Horizontally integrateddiversification
- **III.** Concentricdiversification
- **IV.** Conglomeratediversification`

I. **Vertically Integrated Diversification:** In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process sequence moves forwardorbackwardinthechainandentersspecificproduct/processstepswith theintentionofmakingthemintonewbusinessesforthefirm.Thecharacteristic featureofverticallyintegrateddiversificationisthathere,thefirmdoesnotjump outside the vertically linked product-processchain.

Forward and Backward Integration: Forward and backward integration forms partofverticallyintegrateddiversification.Inverticallyintegrateddiversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backwardinthechainandenterspecificproduct/processstepswiththeintention of making them into new businesses for thefirm.

Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production. *For example, A large supermarket chain considers to purchase a number of farms that would provide it a significant amount of fresh produce.*

Ontheotherhand,forwardintegrationismovingforwardinthevaluechainand entering business lines that use existing products. Forward integration will also take place where organizations enter into businesses of distribution channels. *For example, A coffee bean manufacture may choose to merge with a coffeecafe.*

II. **Horizontal Integrated Diversification:** Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors'products.

RELATED DIVERSIFICATION	**UNRELATED DIVERSIFICATION**

Exchange or share assets or competencies by exploiting • Brandname • Marketingskills • Sales and distribution • • capacity • Manufacturingskills • R&D and new productcapability • Economies ofscale	• Investment in new productportfolios. • Employment of newtechnologies. • Focus on multipleproducts. • Reduceriskbyoperatinginmultiple product markets. • Defend against takeoverbids. • Provide executiveinterest.

III. **Concentric Diversification:** Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The newproduct is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversificationinthenatureofthelinkagethenewproducthaswiththeexisting ones. While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-likemanneratoneormorepointsinthefirm'sexistingprocess/technology/ productchain.

IV. **Conglomerate Diversification:** In conglomerate diversification, no such linkages exist; the new businesses/ products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/technology/function, there is no connection between the newproducts andtheexistingones.Conglomeratediversificationhasnocommonthreadatall with the firm's present position. *For example, A cement manufacturer diversifies into the manufacture of steel and rubberproducts*

2. Expansion through Mergers andAcquisitions

Acquisition or merger with an existing concern is an instant means of achieving the expansion.Itisanattractiveandtemptingpropositioninthesensethatitcircumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialize growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lastingaffair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denotesthat thepositiveeffectsofthemergedresourcesaregreaterthanthesomeoftheeffectsof the individual resources before merger oracquisition.

Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizationsshare profits in the newly created entity. In a merger two organizations combine toincrease their strength and financial gains along with breaking the tradebarriers.

When one organization takes over the other organization and controls all its business operations, it is known as acquisitions. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financiallystrongerandbiggerestablishesitpower.Thecombinedoperationsthenrun under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in a weaker position is forced to sell itsentity.

Types of Mergers

HorizontalMerger

The types of mergers are similar to types of diversification.

Horizontal merger is a combination of firms engaged in the same industry. It is a merger with a direct competitor. The principal objective behind this type of merger is to achieve economies of scale in the production process by shedding duplication of installations and functions, widening the line of products, decrease in working capitalandfixedassetsinvestment,gettingridofcompetitionandsoon.*Forexample, formationofBrookBondLiptonIndiaLtd.throughthemergerofLiptonIndiaandBrook Bond.*

VerticalMerger:

It is a merger of two organizations that are operating in the same industry but at different stages of production or distribution system. This often leads to increased synergies with the merging firms. If an organization takes over its supplier/producers of raw material, then it leads to backward integration. On the other hand, forward integrationhappenswhenanorganizationdecidestotakeoveritsbuyerorganizations or distribution channels. Vertical merger results in many operating andfinancial economies. Vertical mergers help to create an advantageous position by restricting the supply of inputs to other players, or by providing the inputs at a highercost.

Co-genericMerger:

In Co-generic merger two or more merging organizations are associated in someway or the other related to the production processes, business markets, or basic required technologies. Such merger includes the extension of the product line or acquiring components that are required in the daily operations. It offers great opportunities to businessestodiversifyaroundacommonsetofresourcesandstrategicrequirements. *For example, an organization in the white goods category such as refrigerators can diversify by merging with another organization having business in kitchenappliances.*

Conglomerate Merger:

Conglomerate mergers are the combination of organizations that are unrelated to eachother.Therearenolinkageswithrespecttocustomergroups,customerfunctions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of thesefactors.

3. **Expansion through StrategicAlliance**

A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated. Strategic alliances are often formed in the global marketplace between businesses that are based in different regions of the world.

Advantages of Strategic Alliance

Strategicallianceusuallyareonlyformediftheyprovideanadvantagetoalltheparties in the alliance. These advantages can be broadly categorized asfollows:

1. **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Strategic partners may provide a good or service that complements thereby creating a synergy. Having a strategic partner who is well-known and respected also helps add legitimacy and creditability to a newventure.
2. **Economic:**Therecanbereductionincostsandrisksbydistributingthemacross the members of the alliance. Greater economies of scale can be obtained in an alliance,asproductionvolumecanincrease,causingthecostperunittodecline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.
3. **Strategic:** Rivals can join together to cooperate instead of compete. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities andthedevelopmentofnewproductsandtechnologies.Strategicalliancesmay also be used to get access to new technologies or to pursue joint research and development.
4. **Political:** Sometimes strategic alliances are formed with a local foreignbusiness to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically-influential partners may also help improve your own influence andposition.

Disadvantages of Strategic Alliance

Strategicalliancesdocomewithsomedisadvantagesandrisks.Themajordisadvantage is**sharing.**Strategicalliancesrequiresharingofresourcesandprofits,andalsosharing knowledge and skills that otherwise organizations may not like to share. Sharing knowledgeandskillscanbeproblematiciftheyinvolvetradesecrets.Agreementscan be executed to protect trade secrets, but they are only as good as the willingness of parties to abide by the agreements or the courts willingness to enforcethem.

Strategic alliances may also create a potential competitor. An ally may become a competitor in future when it decides to separate out.

Retrenchment/TurnaroundStrategy

(a) **Retrenchment Strategy:** It is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find outthe problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-makingunits,divisions,orSBUs,curtailsitsproductline,orreducesthefunctions performed, it adopts a divestment (or divestiture) strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy. We deal with each of these strategiesbelow.

(b) **TurnaroundStrategy:**Retrenchmentmaybedoneeitherinternallyorexternally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaroundstrategy. There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are:

- Persistent negative cash flow frombusiness(es)
- Uncompetitive products or services
- Declining marketshare
- Deterioration in physicalfacilities
- Over-staffing, high turnover of employees, and lowmorale
- Mismanagement

Action Plan for Turnaround

For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues. A workable action plan for **turnaround would involve the following stages:**

- **Stage One – Assessment of current problems**: The first step is to assess thecurrentproblemsandgettotherootcausesandtheextentofdamage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediateissues.
- **StageTwo–Analyzethesituationanddevelopastrategicplan:**Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengthsandweaknessesintheareasofcompetitiveposition.Oncemajor problems and opportunities are identified, develop a strategic plan with specific goals and detailed functionalactions.
- **Stage Three – Implementing an emergency action plan**: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate highpotentialproducts.Apositiveoperatingcashflowmustbeestablished as quickly as possible and enough funds to implement the turnaround strategies must beraised.
- **Stage Four – Restructuring the business**: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapidimprovement.

  During the turnaround, the "product mix" may be changed, requiring the organizationtodosomerepositioning.Coreproductsneglectedovertime may require immediate attention to remain competitive. Some facilities mightbeclosed;theorganizationmayevenwithdrawfromcertainmarkets tomakeorganizationleanerortargetitsproductstowardadifferentniche.

  The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systemsthat encourage dedication and creativity encourage employees to thinkprofits and return oninvestments.

- **StageFive–Returningtonormal**:Inthefinalstageofturnaroundstrategy process,theorganizationshouldbegintoshowsignsofprofitability,return oninvestmentsandenhancingeconomicvalue-added.Emphasisisplaced onanumberofstrategiceffortssuchascarefullyaddingnewproductsand improving customer service, creating alliances with other organizations, increasing the market share,etc.

The important elements of turnaround strategy are as follows:

- Changes in the topmanagement
- Initial credibility-buildingactions
- Neutralizing externalpressures
- Identifying quick payoffactivities
- Quick costreductions
- Revenuegeneration
- Asset liquidation for generatingcash
- Better internalcoordination

Divestment Strategy: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

A divestment strategy may be adopted due to various reasons:

- ✓ A business that had been acquired proves to be a mismatch and cannot beintegrated within the company.
- ✓ Persistent negative cash flows from a particular business create financial problemsfor the whole company, creating the need for divestment of that business.
- ✓ Severity of competition and the inability of a firm to cope with it may cause it todivest.
- ✓ Technological upgradation is required if the business is to survive but where it isnotpossibleforthefirmtoinvestinit,apreferableoptionwouldbetodivest.
- ✓ A better alternative may be available for investment, causing a firm to divest a part of its unprofitablebusinesses.

Liquidation Strategy: A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and sellingitsassets.Itisconsideredasthelastresortbecauseitleadstoserious

consequences such as loss of employment for workers and other employees, terminationofopportunitieswhereafirmcouldpursueanyfutureactivities,and thestigmaoffailure.Manysmall-scaleunits,proprietorshipfirms,andpartnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, forliquidation.

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, the firm cannot expectadequate compensation as most assets, being unusable, are considered asscrap.

Liquidation strategy may be unpleasant as a strategic alternative but when a “dead business is worth more than alive”, it is a good proposition. For instance, therealestateownedbyafirmmayfetchitmoremoneythantheactualreturns ofdoingbusiness.Whenliquidationisevident(thoughitisdifficulttosayexactly when), an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process ofliquidation.

Characteristics of Retrenchment/TurnaroundStrategy

- Thisstrategyinvolvesretrenchment/divestmentofsomeoftheactivitiesina
- given business of the firm or sell-out of some of the businesses as such.
- Divestmentistobeviewedasanintegralpartofcorporatestrategywithoutany stigmaattached.
- Likeexpansionstrategy,divestmentstrategy,too,involvesaredefinitionofthe
- business of the corporation.

Compulsions for divestment can be many and varied, suchas

(a) Obsolescence ofproduct/process

(b) Business becoming unprofitable and unviable

(c) Inability to cope up with cut throatcompetition

(d) Industryovercapacity

(e) Failure of existingstrategy

Major Reasons for Retrenchment/TurnaroundStrategy

- ✓ The management no longer wishes to remain in business either partly or wholly due to continuous losses andunviability.
- ✓ Themanagementfeelsthatbusinesscouldbemadeviablebydivestingsomeof
- ✓ the activities or liquidation of unprofitable activities.
- ✓ Abusinessthathadbeenacquiredprovestobeamismatchandcannotbe
- ✓ integrated within the company.
- ✓ Persistent negative cash flows from a particular business create financialproblems
- ✓ for the whole company, creating the need for divestment of that business.
- ✓ Severityofcompetitionandtheinabilityofafirmtocopewithitmaycauseittodivest.
- ✓ Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be todivest.
- ✓ Abetteralternativemaybeavailableforinvestment,causingafirmtodivestapart of its unprofitablebusinesses.

CombinationStrategy:

The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organizations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

Major Reasons for Combination Strategy

- ✓ The organization is large and faces complexenvironment.
  - ✓ Theorganizationiscomposedofdifferentbusinesses,eachofwhichliesina
  - ✓ different industry requiring a different response

Introduction to Corporate Level Strategies

A business unit has to undertake different types of complex activities. In a problematic situation a single strategy is not sufficient and sometimes does not work at all. Company has to pursue multiple strategies at different levels.

Corporate level strategy is an overall plan of action encompassing all the activities and functions performed by the business firms. The plan covers all the objectives of the company allocation of resources and co-ordination among different levels. Business head office is responsible for formulating such strategies to guide the entire enterprise to achieve the overall objectives of the firm.

Corporate strategies can classify into two types

A) Strategies to be adopted and implemented by a firm on its own.

1. Modernisation
2. Diversification
3. Integration
4. Turnaround
5. Disinvestment
6. Liquidation

B) Strategies to be adopted and implemented with other firms.

1. Mergers
2. Takeovers
3. Joint Ventures

MODERNISATION

Meaning The term “Modernisation means adopting to modern needs, methods or processes. It also means adopting modern methods, way, views or processes. Modernisation is concerned with the social and technical reforms introduced to replace outdated practices with a view to increase output, to improve working conditions of labour and to reduce labour cost. Modernisation is basically used to achieve organizational objectives such as increased production, lower costs, efficiency, productivity etc.

Measures of Modernisation – Modernisation includes adopting certain measures in practice

- To use improved quality of raw materials
- To have up to date machinery, equipment and tools necessary for production purposes
- To adopt latest processes and techniques that would give better and quicker results
- To follow latest techniques in marketing of goods
- To choose updated advertising and sales promotion techniques

Modernisation in India Many Indian Companies are giving importance to Modernisation as a necessity to survive in this competitive market. Consider the following examples

1. National Organization Chemicals Industries Ltd. (NOCIL), a major manufacturer of petrochemicals in the private sector, undertook a Rs. 100 crore modernization plans in order to compete effectively.

2. Modi Industries Ltd. has planned to invest Rs. 30 crores for technological upgradation of its steel unit, for widening its production range. 3. The corporate planning team at Steel Authority of India Ltd., (SAIL), has taken up Rs. 15,000 crore capital spending programmes spread over seven years to modernize its steel plants.

Those many companies are adopting modernization strategy, but all in India all companies are not modernized. They do not have advanced techniques of operations. Many Companies are still operating with outdated techniques due to lack of capital. So they cannot produce quality goods and cannot give better services to the customers. Our exports are also getting affected due low-quality goods supplied by Indian exporters.

So Indian companies should adopt modernization techniques on necessary basis. But any schemes of modernization must also consider the social aspects e.g. employees' satisfaction and welfare, consumer's expectation, community's need and the need for economic stability. Similarly, ecological balance has to be maintained by the businessmen while implementing modernization strategies.

Advantages of Modernisation

Modernisation is required because it serves following purposes.

a. It helps the company to survive in the competitive market
b. It improves the efficiency of the company, reduces the cost of production and improves the quality of products.
c. It ensures stability of the business in the long run.
d. It increases profitability of the company.
e. Modernisation is essential for advancement and expansion.
f. With up to date technology, company can serve the customers in a better way. It enhances customer satisfaction.
g. Company can maintain pace with the changing business environment

INTEGRATION

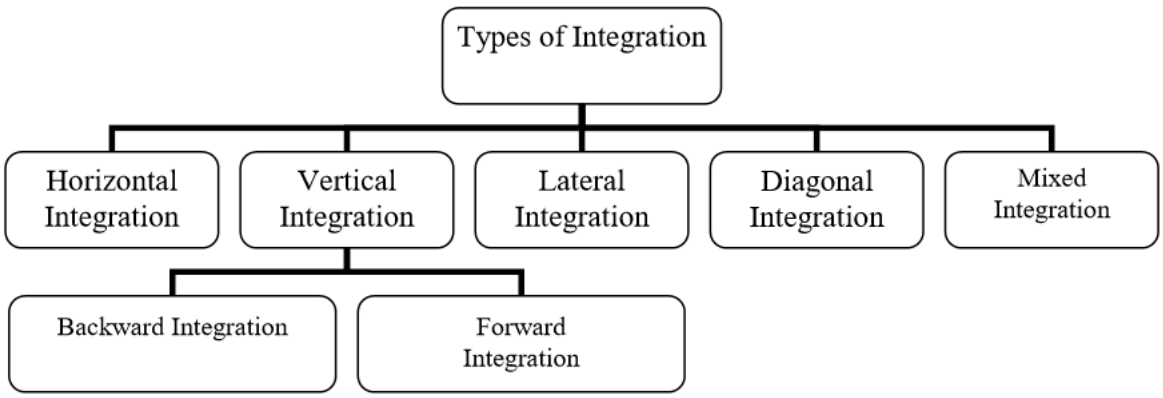
Meaning:

Integration means combination of business units that are separate but complementary to one another. It may also refer to coming together of business units that are competing with one another. When business units join hand to accomplish certain well-defined goals or objectives, it is called as integration. It may between the firms from the same industry or from different industries.

Features:

1. **Association of Business:** Integration is an association of business units from the same or different industries with a view to accomplish certain well-defined objectives like: to control market, eliminate competition, create monopoly or any other agreed objectives.
2. **Risk Factor:** From the point of view integrations minimizes risk and uncertainties and ensures survival and growth of combining units
3. **Negative Side:** Integration reflect association of firms to meet their personal goals of survival, growth and prestige at the cost of consumers. In fact, it reflects the negative side of the business i.e. it is against the interests of consumers and other market functionaries. Business integration are considered as well-planned conspiracy to create monopoly like situation in the market and exploit consumers.
4. **Mode of working:** Integration aims at ensuring survival and growth by regulating or controlling production and supply of goods and price.

TYPES OF INTEGRATION:



1. **Horizontal Integration Under this method,** business firms from the same type of business or producing same product come together to form a group. It is an integration of two or more units engaged in the same activity. Thus, two producers may combine in order to reduce competition. Associated Cement Companies (ACC) is a good example of horizontal integration, which brought under its control many small cement manufacturing units.

Every member of horizontal combination is expected to follow certain guidelines and jointly the group controls the market. It is called as horizontal integration because all the units are from the same industry. Another example was when Proctor and Gamble and Godrej Soaps came together in 1992 in a marketing alliance in India. It was a horizontal integration.

The main objectives underlying horizontal integration are a) to reduce the degree of competition and to improve the position in the market, b) to follow common policies relating to production, distribution and pricing so as to control market c) to secure benefits of large scale production and reduce cost of production d) to acquire control over market and thereby, make higher profits , e) to adjust supply according to demand in the market by adjusting or regulating production of goods.

2. Vertical Integration This is also called as process or industry integration. Under this method business units from the same industry but carrying on different processes or product come together to form a group to acquire control over all stages of production and distribution of goods. It is a type of integration in which a firm combines with another firm that supplies raw materials to it or some components of its finished products. Vertical integration may be backward or forward

a. Backward Vertical Integration Here the manufacturer joins hands with supplier of raw materials having a tie up with a manufacturer. For example, a ready-made garment unit can associate with cloth manufacturer to supply cloth at reasonable rates and of standard quality. Like-wise Bata Shoe Co. has association with raw leather suppliers.

b. Forward Integration In order to have control over distribution, a manufacturer may integrate with retailers or open his own retail outlets to ensure control over distribution and to reduce dependence on distributors. Many reputed firms like Raymond’s Textiles, Bata etc. have tied up with retailers and also have their own chain of retail outlet all over the country.

3. Lateral or Allied Integration It refers to the combination of firms from different industries, manufacturing altogether different product, but are related to each other in some way. For example, suppliers of building materials can join hands together with a building contractor to supply its requirements for building construction. Lateral integration is of 2 types.

a. Convergent Lateral Integration In this type, firms manufacturing or supplying raw material or finished product are tied up with a bigger firm to supply its requirements of raw material. Convergent integration benefits to all parties concerned because individual supplier is assured of fix order and the major firm gets raw material at concessional rates. E.g. a building contractor need cement, sand, steel, electrical equipment’s, sanitary equipment’s and Architect’s services to construct a building. He joins with various suppliers who are independent and not related to each other but they are related to each other through the final product.

b. Divergent Integration This is exactly opposite to convergent combination. In this method, firms producing different product but using the same raw material join together. The combining unit can jointly place order for raw material, negotiate price, ask for discount and liberal payment terms with the suppliers. Divergent combinations are unique in the sense that users come together and bargain with the main supplier. E.g. paper is used as raw material by many firms. Therefore, instead of placing order individually, users like newspapers and magazine publishers, book makers, join hand they can collectively bargain and ensure supply of paper at cheaper rates.

4. Divergent Integration It is a combination of two firms, the main firm engaged in one line of production and the other in the supportive or auxiliary services required by the main firm. Jointly both the units provide required services. For example, a combination of car dealer with service station. Car dealer's main business is to sell cars and provide after sales service, repairs and maintenance. In absence of supportive service, car dealing has no value. Therefore, a car-dealer like to associate with service provider so the main service is complete.

5. Circular or Mixed Integration It is a combination of firms with different industries and producing different products. The combining units are not related to each other in any way. For example, a combination of Cloth Manufacturing unit with the firm manufacturing electronic equipment's. The object of such hybrid combination is to bring more business units under one management and control.

Advantages of Integration:

- It gives a firm better control over its raw materials, processes or finished products as well as marketing, depending upon the type and extent of integration.
- It leads to economical operations.
- It also helps in having efficient working.
- It improves corporate image
- It lowers the level of competition
- It ensures better utilization of Resources
- It helps to spread the business risks

Limitations of integration:

a) Any dislocation at any state in one unit may hamper the speed of production or quality of product.
b) A very high degree of coordination is required to keep the activity flow smooth. It is likely that snags may develop in the level of co-ordination

Diversification:

Meaning Diversification means spreading investment over several enterprises or products, especially to reduce the risk. Here the manufacturer expands his operations to products and those areas which may or may not have any connection, direct and indirect, to the existing product or products. Nowadays competition has intensified tremendously, so relying on one product and one brand for survival and growth is very risky. So, the companies nowadays prefer to diversify their operations. E.g. HLL has diversified into soaps, cosmetics, washing powder tea, salt, toothpaste etc. It is India's largest FMCG company. It has around 100 toothpaste etc. It has around 100 products out of which 30 are doing exceedingly well. Therefore, the risk gets diversified which facilitates survival.

Following are the Features of diversification

1. **Variety of business**

   Diversification involves starting those activities or venturing into those areas which are totally different from the existing line of business. It leads to variety of activities undertaken by the organization e.g. a company manufacturing cement may diversify in into texthes, to petrochemicals etc. Reliance group is a classic example of a diversified company.

2. **Internal or external**

   Diversification can take place internally or externally, internally by using its own resources. External diversification is through amalgamations, absorptions, joint ventures. Internal diversification is a smooth affair as internal people are involved. However external diversification involves takeovers, acquisitions which can be volathe.

3. **Suitable for big companies**

   Diversification is suitable for big companies. Acquiring land, installing new machinery, finding new markets, appointing people etc. is quite costly affairs. So big companies like the Tatas, the Birlas, the Reliance etc . with huge financial and physical resources at their disposal find it convenient to diversify their operations. By diversifying, their resources are also used in optimum manner.

4. **Suitable for dynamic environment**

   Environmental factors like economic, social, technological etc. are very dynamic. They keep on changing very fast, thereby creating a lot of opportunities and posing a lot of threats. Success would depend upon making most of the given opportunities. This would be possible only if the company has diversified its operations in order to make the most of the changes that have taken place in different sectors.

5. **Preferred option after expansion**

   If the company desires to grow then generally it opts for expansion i.e. increase the production capacity of the same product or produce allied products as it is relatively easy. Only when the market reaches a saturation level making further expansion impossible, the company generally contemplates of diversification.

6. **Cater to different markets**

   Diversification involves selling different products, which automatically involves different segments of the society e.g. HLL cosmetics is for young ladies, while its Kissan Jam is targeted at children. Thus, not only the area of sale may be different but also diversified customers are approached.

7. **Increase in activities**

   Diversification ultimately results in increase in the activities of the business unit. Production, distribution, promotion, after sales service etc. increases. The organization should contemplate of increasing the activities only if it has the resources: physical, financial and technical at its disposal.

Need for diversification of business:

1. **Spread risk** Here the company diversifies into different brands and different products. It is possible that brand fatigue and even product fatigue may enter the minds of the customers e.g. ink pens are hardly used nowadays as product fatigue has entered in the minds of most of consumers in case of ink pens. So those companies which did not diversify their operations has to close their business.
2. **Accelerated growth** Every organization wants to have rapid growth. But the economy passes through boom and depression. Similarly, during different times, different sectors grow rapidly. Nowadays information technology products are having rapid growth. Thus, most of the companies like Tatas, Larsen & Toubro etc. have diversified their operations in the information technology sector.
3. **Capture market** Every company is desirous of expanding its share in the market. There is intense competition in any sector. So, it becomes very difficult to increase its market share. Samsung electronics has targeted the premium end of the market with the launch of the world's first multifunctional monitor.
4. **Better utilization of resources** the resources of the company are put to the best use. Various products which have the potential to succeed in different markets are introduced e.g. API Polymers (India) Pvt. Ltd., the makers of action shoes, has launched new shoes

called floaters for summer. The company claims that due to global warming and oppressive Indian summer, something cool and casual is needed.

5. **Face competition effectively** Competition exists in any area as there are large number of producers in each product category. The only way to survive and grow is to overcome that competition. And one way is to diversify into new areas which were not catered before e.g. Tatas have Tata Tea, Titan Industries in watches, Tata engineering and locomotive etc.
6. **Improves corporate image** the image of company which has diversified into different sectors is very positive especially if it has been successful in most of the areas e.g. Godrej; Godrej cupboards, Godrej locks etc.

Types of diversification Following are the various types by which an organization can diversify its operations:

1. **Vertical diversification** Vertical diversification means involving all or some of the levels in an organizational hierarchy or stages in the production of a class of goods. Here the company either starts producing or acquiring the raw material required for its product or decides to market the product produced by it on its own. The former is a backward integration and the latter one is called forward integration. In other words, the company intends to do everything right from acquiring the raw material, producing the product and distributing it to the final consumers on its own. If necessary, the company may even acquire another company which is supplying the raw material.

   E.g. Nicholas Piramal is today one of the largest pharmaceutical companies manufacturing and marketing bulk drugs and formulation. For a backward integration it acquired the basic research unit of Hoechst Marion Roussel (India) for Rs. 20 crores. Similarly, it even went for forward diversification in 1997. It entered into strategic joint ventures with Ambalal Sarabhai and Reckitt and Colman. The agreement with Ambalal Sarabhai was to market Sarabhai health- care products.
2. **Horizontal diversification** Here the two companies are at par i.e. they are manufacturing and marketing the same products to the same customers. So instead of competing with each other these firms come together either by way of joint venture or collaboration or merger e.g. Merger of TOMCO Ltd. with Hindustan Lever Ltd. is a good example of horizontal integration.
3. **Lateral or Conglomerative diversification** Conglomerative means a group or corporation formed by the merging of separate and diverse companies. A company on its own may also diversify into different fields like oil, iron and steel, cars etc. or it may tie

up with some other firm for diversifying into new area. In other words, conglomerative diversification involves entering into those areas which have no relation with the existing line of business. For example, the Essel Group of companies was founded as a trading company. Over the years company has diversified into areas of packaging, exports, property development and recreation (Essel World). The latest addition to the company's diversified field is Zee Telefilms.

4. **Concentric diversification** Concentric means having a common centre especially of a circle. Here the core business is in the centre and other businesses revolve around it, in a sense they are not directly related to it but are indirectly related e.g. Great Eastern Shipping Company (GE Shipping) has floated a joint venture company – United Heli charters – with Qatar General Petroleum Corporation and UB Air. The new company will charter helicopters and lease it to offshore operators in India.

Introduction to Corporate Level Strategies – Turnaround, Liquidation and Disinvestment:

TURNAROUND

Meaning Turnaround is a technique applied to loss making unit with a view to bring it back on profitable track. Turnaround simple means turning the enterprise from loss making to profit making, from the path of decline to the path of progress, from negative to positive action in the different areas like cash-flows, marketing, profit-making etc. Strategies adopted by the management to reverse the deteriorating trends of the performance of a business are termed as "Turnaround Strategy". It is a type of strategy specifically developed by the management to improve operational efficiency and productivity with a view to increase overall profitability of business. Management has to adopt several trial and error techniques in order to reduce the negative impact of such forces which are considered detrimental to the growth of business.

The main objective of turnaround is to improve the performance of the business enterprise. Turnaround bring about a change in the trends of an undertaking from downwards to upwards, from negative to positive and from loss making to profit making enterprise. Turnaround involves taking an „ U ‟ turn to the declining fortunes of the company and making it viable again.

Turnaround means turning the loss-making unit back into profitability. It is nothing but retrieving the business unit back to prosperity e.g. Indian Bank posted a net profit of Rs. 33.22 crores in 2001-02. This seems creditable as it has come after six years of continuous loss. This was possible because the Bank's new focus on retail lending and on housing loans. Moreover, they adhered to the restructuring plan which included VRS despite of misgivings that the additional expenses would cripple the bank.

Definition According to Dictionary of Marketing (edited by P. Collin) **"Turnaround means making the company profitable again."**

Features of Turnaround:

1. Objective The strategy does not aim at selling or disposing of loss-making unit but works to improve the performance of the unit by re-arranging the available resources.
2. Long Term Strategy Turnaround is one type of long-term strategy and does not aim at providing temporary relief or short cut method to company problems. It studies the problem in- depth and tries to solve it forever.
3. Scope of Turnaround The scope of turnaround is confined to sick or loss-making industrial units. It is a type of crisis management. Turnaround is not short cut or magical formula. It cannot work on all sick units under all circumstances. It is effective in case of loss-making units but having growth or future prospects.
4. Requires Cooperative effort Turnaround strategy can be effective only when there is co-operation from all parties concerned. The parties involve:
    1. Employees
    2. Shareholders
    3. Bank and FI‟s
    4. Other concerned parties
5. Involves restructuring Turnaround is possible only when the company decides to restructure its operations. It may include marketing restructuring whereby marketing of loss making products are stopped or when the outdated machinery is replaced i.e. technological restructuring and so on. These steps are necessary in order to stop the closure of the enterprise.
6. Internally or externally Turnaround can be undertaken by company‟s own experts or by outside consultants. Both have their advantages and limitations e.g. internal experts are aware of the company‟s culture, resources, level of technology better, however they may be biased as their interest are involved. External experts may unbiased but their suggestions may not be practical and the sentiments of the employees may not be considered. So an organization must strike a proper balance between using internal and external experts.

7. Involves replanning Turnaround necessitates replanning. It involves rearranging the structure to convert a loss making unit into profitable one. Since environmental factors are dynamic, it would make the company sick and unless resources are rearranged and replanned, turnaround is not possible.
8. Involves money When product become obsolete, there is decline in its demand e.g. Pagers. Here in order to have a turnaround, technological restructuring, marketing restructuring etc. is necessary which may involve a lot of money. Thus turnaround is not possible for all companies, especially if they do not have extra resources at their disposal.
9. Permanent effect Turnaround involves a permanent effect on the structure and operations of the company. This is because the company may close its unviable product out of the existing range of product or may change the technology from labour intensive to capital intensive thereby reducing the workers or even amalgamate with some other company thereby forming a totally new entity.
10. Optimum utilization of resources The company which is suffering losses, is not is a position to make an optimum utilization of human, physical and financial resources. Turnaround involves restructuring and reorganizing these resources. It tries to focus the resources on profitable ventures and to discontinue the non-profitable ones.

Approaches of Turnaround:

The following are the two main approaches of turnaround strategy

1. Surgical Approach
2. Human Approach

1. Surgical Approach – This approach is stricter in its nature. The new chief executive has to issues strict orders of change and keep strict control on all operations of the enterprise. If certain plants are uneconomic and showing constant losses should be closed down mercilessly. If some employees are required to be retrenched the chief executive has to do it without any hesitation. All operations and activities need to be watched till they show the sign of improvement i.e. turnaround. The fear is expected of its opposition from some subordinate personnel. But the chief executive should not yield to this type of pressure and continue with the approach. If the approach is given up in the middle it will bring disastrous result to the business enterprise.

2. Human Approach – This method is humanistic in its approach. The chief executive while implementing the turnaround programme in the enterprise has to soften and not to be strict unlike in the earlier approach. The chief executive must approach to the problems of the enterprise objectively, inviting opinions of every one working in the enterprise, which will be acceptable to all. This indeed is the democratic approach. The negotiations are made and differences are settled down amicably rather than removing the hard nuts. The idea behind this approach is to bring the enterprise out of difficulties with the help and cooperation of all employees. This approach is beneficial in the long run because when the interest of no one is harmed every one cooperates to improve the situation of the enterprise.

LIQUIDATION Meaning Liquidation is the final decision or withdrawal of commercial activities of the firm forever.

Liquidation of a company is the irretrievable closing down of the business of a company. Basically, it refers to a proceeding by which a company is permanently dissolved. The assets of the company are then disposed of. The debts are paid off out of realized assets and the surplus if any is then distributed among the members in proportion of their holdings in the company. Selling all of the company's assets, in parts, for their tangible worth is called liquidation. Liquidation is a recognition of defeat and consequently can be an emotionally difficult strategy. However, it may be better to cease operating than to continue losing large sums of money.

The decision to close down or liquidate a company is a painful one and taken after much deliberation, when it is simply not possible to carry on the company in the present state of affairs. It is considered as the measure of last resort because it leads to serious consequences such as loss of employment of workers and stoppage of future prospects of the firm. The owners and management have to take decision of closure of a business unit under extremely adverse situations. Winding up or closure of a company has to be in accordance with rules laid down in the companies Act, 1956.

Definition According to Prof Gower ***"winding up of a company is a process whereby its life is ended and its property administered for the benefit of its creditors and members."***

When liquidation may be an effective strategy?

1. When an organization has pursued both a retrenchment strategy and a divestiture strategy and neither has been successful.
2. When an organization only alternative is bankruptcy; liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organization's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital.

3. When the stockholders of a firm can maximize their losses by selling the organization's assets.

Reasons for liquidation of a Business firm:

1. Incompetence of Entrepreneur Young entrepreneurs start business with high ambitions and incur high overhead costs. They usually borrow funds at high rate of interest and do not care much for optimizing the cost of production. From the standpoint of business management, the entrepreneur is incapable because he does not possess knowledge necessary to operate his own firm.
2. Lack of Proper Inventory Control An important reason of failure and closure of business is due to lack of understanding or maintaining proper inventory control. Too large an inventory results in such common problem as owner's money being tied up or waste through spoilage or obsolescence.
3. Weak Competitive Position Competition is very tough in our economy. Firms that cannot efficiently match competitors in such areas as services offered, process charged or quality of merchandise sold definitely will have difficulty in surviving.
4. Low Sale Values Income of the firm is generated by sales, and without income, the result is obvious- collapse of the business. Many reasons contribute to a poor sale record. Some of the most commonly identified factors include a poor location, inferior products, ineffective advertising, prices out of line with competitors and poor service. Inadequate sales volume is the apparent cause for sickness.
5. Disaster There are some circumstances over which the owner may have little or no control. Natural disasters, such as riots. earthquake or flood, may wipe out the small businessmen. Fire, labour problem, burglary and theft of merchandise by employees are further examples of the type of disasters that confront the small businessman.

Effect of liquidation:

Liquidation affects shareholder, employees, consumers, government and society at large. The immediate effect of closure is one employee who lose their jobs, salary and other benefits. It creates unemployment and indirectly the family members of employees also suffer. Shareholders or investor's fund get blocked without appreciation in value, no bonus or dividend and there is possibility of investment turning bad debts.

The government in general and society is particular is also affected by liquidation. There is shortage of goods in the market, consumers have to pay higher price, government" revenues are reduced, social unrest increases, national resources are wasted, financial institutions so fail to receive back loan amount and finally the economic development is affected.

DIVESTMENT Meaning This strategy involves dropping some of the products, markets or functions. The dropping of activities or businesses can be attained under through sale or liquidation. Selling a division or part of an organization is called divestment. It is often used to raise additional capital for further strategic acquisitions or investment.

It can be a part of an overall retrenchment strategy to rid an organization of businesses that are unprofitable, that require too much capital, or that do not fit well with the firm's other activities.

It can involve liquidation, sell-off to another party, or spinning off the business to the corporate stockholders as a separate entity with its own stock. All have the objective of bringing in cash or reducing cash outlay by one transaction. Normally, the business is in poor competitive position but may be viable with cash infusion at some level of risk beyond the corporate threshold.

Reasons for divestment

1. Obsolescence of products, which no longer brings good returns to the firm, and therefore, they can be divested
2. A business that has been acquired by the firm proves to a mismatch and cannot be integrated within the company
3. High competition in the market and the liability of the firm to cope up with the competition pressures.
4. Negative cash flows from a particular business create financial problem for the entire organization, thus creating a need to divest that business.
5. Technological up gradation is required for survival of the business, but the cost of up gradation is quite high, and the firm may not be in a position to invest in such technological up gradation.
6. A firm may find it difficult to manage growing business, and therefore it may divest non-core business to concentrate on core business
7. A firm may find a better alternative to invest, and as such it may divest a part of the business, in order to take advantage of the alternative business area.
8. Growing financial burden such as debt servicing may force the company to divest a part of the business so as to repay loans.

Approaches to divestment: A firm may choose to divest in two ways.

1. A particular business can be divested into a separate independent company and the parent company may or may not retain partial ownership.
2. A particular business may be sold outright to another firm.

Introduction to Corporate Level Strategies – Mergers, Takeovers, Joint Ventures:

MERGER

Meaning: In merger a firm may acquire another firm or two or more firms may combine together to improve their competitive strength or to gain control over additional facilities. It is a combination of two or more companies into one company, wherein only one company survives and the other company ceases to exist. The merger takes place for a consideration, which the acquiring company pays either in cash or by offering its share. E.g. the merger of Reliance Petroleum with Reliance Industries.

External growth or merger can be of two types:

a) under the first category, a firm merge with other firms in the same industry having similar or related products, using similar processes and distributing through similar channels. Such a merger creates problem of coordination between the merged units.
b) In the second type of merger known as conglomerate, firms merging together are engaged in altogether different lines of business and have little common in their products, processes and distribution channel.

Reason for mergers:

1. **To undertake diversification** This follows the need of a narrowly based business to reduce the risks by broadening its activities. To reduce the risks effectively, the acquired firm must not be subject to the same risk promoting factors as a parent firms even though it's may operate in a different field.
2. **To secure scare sources of supply** Where any of the resources which the business needs are in short supply or subject to other difficulties, one solution for it is to acquire its own sources. By mergering the different resources available with two or more units can be pooled together.
3. **To secure economies of scale** Increase in volume of often leads to decrease in operating costs, thereby enabling a larger capacity bank to survive. Merger is considered when the bank has low profitability and through merger bank can secure economies of scale.
4. **To have better management** Where the business suffers from poor management and it does not appear possible to rectify this in the near future, the problem may be resolved by merging with good management team.

5. **To improve the financial standing** When two firms join together, the strengths of both of them are added together and the market may put a higher valuation on such combination than on the constituent parts.
6. **To achieve a monopoly, position** the elimination of competition by absorption gives a firm a greater control over a market. The competition in the market can be reduced with the merger of firms engaged in the similar market.
7. **Revival of Sick units** Merger can bring out a revival of sick units. The sick units can merge with strong companies, and therefore, the problem of industrial sickness can be avoided in case of certain units.

TAKEOVER

Meaning: It generally refers to buying another firm, either its assets or as an operating company. In takeover, one company gets control over the acquired company. Acquired company becomes a part of the acquiring company. Takeover involves a change in ownership and management of the acquired firm. A takeover involves the acquisition or part of whole of the equity capital of another firm, which enables the acquirer to exercise effective control over the affairs of the taken over firm. With the help of take-over, a firm can expand its capacity or competence in the desired area of operations. It does not lead to dissolution of the firm whose shares have been acquired. The takeover can take place in three forms:

a. Negotiated takeover, where both the parties mutually settle the terms and conditions of the takeover.
b. Open market or host the takeover, where the acquiring firm buys shares of the other firm from the open market normally at a higher price than the marketing price.
c. Bail-out, where a profit-making firm takes over a sick or weak firm so as to bail it out from financial crisis.

There are several reasons for takeover. The most obvious reasons for takeover are:

a. Quick growth
b. Diversification
c. Establishing oneself as industrialist
d. Reducing competition
e. Increasing the market share or even creating goodwill. Takeover have become commonplace in the Indian corporate world. Many foreign MNC"s is taking over existing Indian firms so as to facilitate easy entry in the Indian market.

JOINT VENTURES

Meaning: Joint ventures are common in international business. In simple words, joint ventures are a temporary partnership between two or more companies to achieve certain objectives. It is an agreement entered into for a specific purpose or period. After the purpose is served, joint venture ceases to exist. It is a legal organization which takes the form of a short-term partnership in which the companies jointly undertake a project or an assignment for mutual benefit.

It has been observed that joint ventures are widely used by companies to gain entrance into foreign markets. Foreign companies form joint ventures with domestic companies already present in the markets the foreign companies would like to enter. This is because the domestic company is well versed with the conditions prevailing in the local market.

Definitions

According to J.G. Thomas "، Joint ventures are a special case of consolidation where two or more companies form a temporary partnership for a special purpose".

A joint venture agreement can be defined as "an agreement where two or more firms hold equity capital in a venture over which has some degree or control."

Features of Joint Ventures:

a) **Comprehensive term** as compared to foreign collaborations, joint ventures are broad based. In a collaboration, an agreement is entered into for a specific purpose like transfer of technology, capital etc. On the other hand, in case of joint venture, the partnership is for a longer period of time. The term „ joint venture ‟ includes foreign collaborations.

b) **Temporary partnership** Joint venture is a temporary partnership. Here two or more companies come together for achieving a specific objective.

c) **Involvement of more than two companies** A joint venture is a form of business combination in which two companies come together for achieving a common objective. In some cases, more than two companies may be involved. E.g. Pepsi's Indian ventures includes Voltas and Punjab Agro Industry Corporation.

d) **Legal Status** As mentioned earlier, in case of joint venture, two or more companies come together and establish a new business entity. However, the firms may retain their independent legal status different from the new business entity.

e) **Mutual benefit** Generally, a company from a developed company enter into a joint venture agreement with another firm from a developing country, since no country in the world is self-sufficient. The developed countries have lot of finance and also superior technology, but they face shortage of raw materials and labour. On the other hand, developing nations have plenty of raw materials and cheap labour but not capital and technology. Through joint ventures, both the countries are benefited.

f) **Government approvals** Foreign joint ventures are subject to international laws and laws within the foreign countries. Since two or more countries are involved in the joint ventures, government approvals of the concerned countries have to be obtained. Permission of the host country's government is essential for the operations of the joint venture.

Following are some of the examples of joint ventures:

a. Joint venture between Suzuki Motors Corporation and Government of India to manufacture a small engine car specially for the Indian market.
b. Biltrite Corporation of USA and Shenzhan Petrochemicals of China established a shoe soling factory as a joint venture in China.
c. In 1983, Toyota set up its first manufacturing operations in USA as 50-50 joint ventures with General Motors

Merits of Joint Ventures:

1. **Transfer of capital and technology** Joint venture agreements are generally entered into between a company from a developed country and a company from a developing country for the inflow of capital and technology. They thus help to reduce technological gaps between these two types of countries.
2. **Faster industrial growth** the inflow of foreign capital and technology boosts the industrial activities of the developing country. These, in turn, provide job opportunities, increase the income of the people, improve their standard of living and thereby help in the economic development of the country.
3. **Transfer of expertise** No company possesses expertise in all the areas. Through joint ventures, it is possible to club skills like technical, human skills, marketing skills etc. This benefits all the parties in the joint venture.
4. **Spreading of risks** Joint ventures spread risk among the partners. Each partner risks only its own contribution. Thus, joint venture is advisable when market entry requires a large investment or when there is significant political or social instability in the target market.
5. **Synergy** means increased effectiveness or achievement produced by combined action or co-operation. Joint ventures provide synergy due to combined efforts of varied parties

6. **International market Companies** can use joint ventures to penetrate international markets that are otherwise beyond their capacity e.g. some governments require foreign companies to share ownership with local companies. This situation is common among governments of developing countries.

Forms / Types of Joint Venture:

Joint venture can be entered into for a specific purpose or period to transfer technology, joint production or marketing of goods or even for management consultancy. Accordingly, the following are important kinds of joint venture

1. **Technical Joint Venture** The concerned partners agree to provide technical assistance through procurement of equipment's, personnel, training, technical know-how, patents, trademarks etc. to the local partner. Technical know-how can transfer through
   a. By grant of license – under this type of agreement the licence is allowed to use patents, trademarks design in return for royalty payment.
   b. Transfer of Technical Know-how – It involves transfer of technical information relating to the use and application of technology. It also involves transfer of confidential information and support services by technical personnel for installation and maintenance of plant or operation.
2. **Management Consultancy**: Consultancy agreements are entered into in connection with:
   a. Project report preparation
   b. Preparation of Feasibility Report
   c. Preparation of Financial and Marketing Feasibility of a product
   d. Construction of plant and equipments.
3. Marketing Joint venture Such joint venture is established to produce or import products from foreign partner and sell in the local market or in any other third country.
4. Financial Joint Venture The object of financial Joint Venture is to provide services and expertise relating to finance like – study of financial feasibility of a new company, raising of finance, equity participation, loans and borrowings.

Limitations of Joint Venture:

The main limitations of Joint Ventures are as follows:

1. Possibility of unfair and unreasonable terms and conditions There is every possibility that the terms and conditions laid down in the Joint venture agreement may not be fair and reasonable to both the partners particularly the weaker one.

2. **Complicated and time-consuming procedure** the procedure to be followed in order to formulate joint venture agreements is complicated and very time consuming.

3. Possibility of conflicts among the partners In Joint venture conflicts may arise among the partners regarding the implementation of the joint venture projects

4. Obstacle of Government Policy the Government policy concerning foreign exchange and transfer of technology may become an obstacle to the joint venture agreements.

UNIT-IV

GLOBAL STRATEGY

Identifying international opportunities and international strategies, strategic competitive outcomes and risk in an international environment, corporate implications for strategy, strategic alliances, corporate level cooperative strategy and competitive risk with cooperative strategies.

Introduction

Entire world is open to do business today. Technological developments in communication and transportation open national markets around the world. New technological developments, global economic conditions, worldwide population changes, increased competition, legislative requirements, and political events are some of the factors affecting current and future marketing activities of the organisations around the world.

n this post we are going to explain - how to screen and analyse locations as potential markets and as potential sites for operations. Also, how to conduct international market research.

Screening Potential Markets and Sites

Market or Site Screening need environmental scanning in which the organisation identifies desirable markets or sites by using the environmental forces to eliminate the less desirable markets or sites. The screening process help managers in keeping the search cost as low as possible without overlook any potential market and any possible location or site. Following are the steps in the process of market or site screening: -

1.IdentifyBasicAppeal

Basic Demand - For a potential market this step entails determining basic demand for a product.

- Available Resources - For a potential site this step involves determining the availability of resources required to undertake production, R&D, or some other operations.

Determining Basic Demand

The first step in the process of searching potential markets is to find out whether there is a basic demand for the organisation's product. Understanding of country's climate is important in determining basic demand. For example - What is the use of selling snowshoes or snowboards in a country which receives no snowfall. Certain countries also ban specific products. For example - Alcohol is banned in many Islamic countries.

Determining Available Resources

Organisations require particular resources to carry out local business operations. Raw material needed for manufacturing must either be found in the national market or imported. Imports may face tariffs, quotas, or other government barriers. Labour is another important resource essential to production. Many organisations relocate to lower-wage countries, especially those with labour-intensive products. Financing can send production abroad if it is not available at home or when interest rates are high at home. Locations where these resources are found locally and economically are preferred most. Markets and sites not meeting requirements are dropped.

2. Access the National Business Environment

The second step in the process of market or site screening is to understand differences in cultures, politics, laws, and economics; and to incorporate that understanding into market and site selection decisions. Following are the forces of National Business Environment: -

Cultural Forces

Attitude towards business, language, religious beliefs, customs, and traditions are different in different countries. These elements can influence what kind of products are sold and how.

Cultural elements such as work ethic, educational attainment, or the level of managerial skills of the local people affect site selection decisions.

Political and Legal Forces

- *Government Regulations* - A nations attitude towards trade and investment, types of restrictions on imports, types of investment barriers, and environmental regulations can attract or discourage foreign investment.
- *Government Bureaucracy* - Lean and smoothly operating bureaucracy can encourage investment while an inefficient, cumbersome, or corrupt one can discourage it.
- *Political Stability* - Companies must monitor political events that threaten operations and future earnings. Political risk can threaten activities of any international business activity.

Economics and Financial Forces

Poor fiscal and monetary policies can increase inflation and budget deficits, weaken a currency, lower productivity levels, and slow innovation. These reduce investor confidence and cause companies to scale back or cancel proposed investments.

Other Forces

- *Cost of Transporting Materials and Goods* - Can affect where manufacturing facilities are located. Logistics is managing the physical flow of products from point of origin as raw materials to end users as finished products.
- *Country Image* - Embodies all facets of a nation's business environment and affects the selection of sites for any activity. Country image can be good for certain products but unfavourable for others.

3. Measure Market/Site Potential

Despite local demand for a product or availability of resources, consumers might not be ready or able to purchase a product or certain sights many not be able to supply needed.

A. Measuring Market Potential - Different levels of economic development require varying approaches to researching market potential.

Industrialised Markets

i. Sufficient information on market potential is available about industrialised countries.

ii. Information in a typical industry analysis: -

- Names, production volumes, and market shares of largest competitors.

- Volume of exports and imports of the product.
- Structure of wholesale and retail distribution networks.
- Market background, including population, social trends, and marketing approaches used.
- Total expenditure on product (and similar products).
- Retail sales volume and market prices of product.
- Future market outlook and potential opportunities.

iii. These reports provide a quick overview of the size and structure of a nation’s market for a product.

iv. One way to forecast market demand is to determine a product’s income elasticity-sensitivity of demand for a product relative to a change in income. Calculated by dividing a percentage change in the quantity of a product demanded by a percentage change in income.

v. Income-elastic product: demand increases in a greater proportion to increase in income. These are discretionary purchases such as video games, jewelry, etc.

vi. Income-inelastic product: demand increases less relative to increase in income. These are considered essential and include food, utilities, beverages, etc.

Emerging Markets

i. Companies often face a lack of information about emerging markets. Data on market size or potential may be unavailable.

ii. Can rank locations using a market-potential indicator if company is considering exporting:
    - *Market Size* - snapshot of market size at the moment.
    - *Market Growth Rate* - Identify large (but shrinking) markets and small (but expanding) markets.
    - *Market Intensity* - Estimate a market’s wealth or buying power (both individuals and businesses).
    - *Market Consumption Capacity* - Estimate a market’s spending capacity.
    - *Commercial Infrastructure* - Assess channels of distribution and communication.
    - *Economic Freedom* - Estimate extent that free-market principles predominate.
    - *Market Receptivity* - Estimate market “openness.”

- *Country Risk* - Estimate risk of doing business, including political, economic, and financial risks.

iii. After analysing each factor, the importance of each to demand for a product is determined; then potential locations are ranked according to their market appeal.

B. <u>Measuring Site Potential</u>

- Managers must assess the quality of resources they will employ locally. For many companies, the most important resource will be labour and management.
- Wages are lower if labour is abundant, relatively less skilled (though perhaps well-educated), or both. Yet, training local managers requires a substantial investment of time and money.
- Companies must assess the productivity of local labour and managers; low wages may reflect low productivity levels.
- Managers should examine local infrastructure, including roads, bridges, airports, seaports, and telecommunications systems; each can impact efficiency.

4. Select Market/Site

Represents intensive efforts of assessing remaining potential markets and sites. Managers visit each location to confirm earlier expectations and perform a competitor analysis. Managers evaluate each potential location's contribution to cash flows by undertaking a financial evaluation.

i. Field Trips - Trips to each remaining site let managers experience the culture, observe the workforce, or make personal contact with potential new customers and distributors.

ii. Competitor Analysis - Intensely competitive markets put downward pressure on the prices firms charge their customers. Intensely competitive sites for production and R&D activities increase the costs of doing business. Competitor analysis should address the following :-

- Number of competitors in each market (domestic and international).
- Market share of each competitor
- Whether each competitor's product appeals to a small market segment or has mass appeal
- Whether each competitor focuses on high quality or low price

- Whether competitors tightly control channels of distribution
- Customer loyalty commanded by competitors
- Potential threat from substitute products
- Potential entry of new competitors into the market
- Competitors' control of production inputs (labour, capital, raw materials, etc.)

UNIT-V

STRUCTURE AND CONTROLS WITH ORGANIZATIONS

Organizational structure and controls, evolutionary patterns of strategy and organizational structure, leadership implications for strategy, entrepreneurial implications for strategy.

Introduction:

Strategic evaluation and control are the final phase in the process of strategic management. Its basic purpose is to ensure that the strategy is achieving the goals and objectives set for the strategy. It compares performance with the desired results and provides the feedback necessary for management to take corrective action.

According to Fred R. David, strategy evaluation includes three basic activities (1) examining the underlying bases of a firm's strategy, (2) comparing expected results with actual results, and (3) taking corrective action to ensure that performance conforms to plans. Sometime, the best formulated strategies become obsolete as a firm's external and internal environments change. Managers should, therefore, identify important milestones and set strategic thresholds to assist them in knowing the changes in the underlying assumptions of a strategy and, if necessary, alter the basic strategic direction. The evaluation process thus works as an early warning system for the organisation.

Strategic evaluation generally operates at two levels – strategic and operational level. At the strategic level, managers try to examine the consistency of strategy with environment. At the operational level, the focus is on finding how a given strategy is effectively pursued by the organisation. For this purpose, different control systems are used both at strategic and operational levels.

Nature of Strategic Evaluation and Control:

Strategic evaluation and control are defined as the process of determining the effectiveness of a given strategy in achieving the organisational objectives and taking corrective actions wherever required. According to Pearce and Robinson, strategic control is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments. In contrast to post-action control, strategic control seeks to guide action on behalf of the strategies. as they are taking place and when the end result is still several years off.

Types of General Control Systems

Basically, there are three types of general control systems:

1. Output control (i.e. control on actual performance results)
2. Behaviour control (i.e. control on activities that generate the performance)
3. Input control (i.e. control on resources that are used in performance)

Output Control

Output controls specify what is to be accomplished by focusing on the end result. This control is done through setting objectives, targets or milestones for each division, department, section and executives, and measuring actual performance. These controls are appropriate when specific output measures haven't been agreed on. Often rewards and incentives are linked to performance goals.

Example: Sales quotas, specific cost reduction or profit targets, milestones or deadlines for completion of projects are examples of output controls.

Behaviour Control

Behaviour controls specify how something is to be done. This control is done through policies, rules, standard operating practices and orders from superiors. These controls are the most appropriate when performance results are hard to measure. Rules standardise the behaviour and make outcomes predictable. If employees follow rules, then actions are performed and decisions handled the same way time and again. The result is predictability and accuracy, which is the aim of all control systems.

The main mechanisms of behaviour control are:

4. Operating budgets
5. Standard operating practices

6. Rules and procedures

Example: One example of an increasingly popular behaviour control is the ISO 9000 Standards Series on quality management and assurance developed by the International Standards Association of Geneva, Switzerland. The ISO 9000 series is a way of documenting a company's quality operations, and strictly complying with it. Many corporations worldwide view ISO 9000 certification as assurance that the firm sells quality products.

Input Control

Input controls specify the amount of resources, such as knowledge, skills, abilities, of employees to be used in performance. These controls are most appropriate when output is difficult to measures.

Basic Characteristics of Effective Evaluation and Control System

Effective strategy evaluation systems must meet several basic requirements. They must be:

14. **Simple:** Strategy evaluation must be simple, not too comprehensive and not too restrictive. Complex systems often confuse people and accomplish little. The test of an effective evaluation system is its simplicity not its complexity.
15. **Economical:** Strategy evaluation activities must be economical. Too many controls can do more harm than good.
16. **Meaningful:** Strategy evaluation activities should be meaningful. They should specifically relate to a firm's objectives. They should provide managers with useful information about tasks over which they have control and influence.
17. **Timely:** Strategy evaluation activities should provide timely information. For example, when a firm has diversified into a new business by acquiring another firm, evaluative information may be needed at frequent intervals. Time dimension of control must coincide with the time span of the event being measured.
18. **Truthful:** Strategy evaluation should be designed to provide a true picture of what is happening. Information should facilitate action and should be directed to those individuals who need to take action based on it.
19. **Selective:** The control systems should focus on selective criteria like key important factors which are critical to performance. Insignificant deviations need not be focused.
20. **Flexible:** They must be flexible to take care of changing circumstances.

21. **Suitable:** Control systems should be suitable to the needs of the organisation. They must conform to the nature and needs of the job and area to be controlled.
22. **Reasonable:** Control standards must be reasonable. Frequent measurement and rapid reporting may frustrate control.
23. **Objective:** A control system would be effective only if it is unbiased and impersonal. It should not be subjective and arbitrary. Otherwise, people may resent them.
24. **Acceptable**: Controls will not work unless they are acceptable to those who apply them.
25. **Foster Understanding and Trust:** Control systems should not dominate decisions. Rather they should foster mutual understanding, trust and common sense. No department should fail to cooperate with another in evaluating and control of strategies.
26. **Fix Responsibility for Failure:** An effective control system must fix responsibility for failure. Detecting deviations would be meaningless unless one knows where they are occurring and who is responsible for them. Control system should also pinpoint what corrective actions are needed.

There is no ideal strategy evaluation and control system. The final design depends on the unique characteristics of an organisation's size, management style, purpose, problems and strengths.

Strategic Control

Strategic control is a type of "steering control". We have to track the strategy as it is being implemented, detect any problems or changes in the predictions made, and make necessary adjustments. This is especially important because the implementation process itself takes a long time before we can achieve the results. Strategic controls are, therefore, necessary to steer the firm through these events.

Types of Strategic Control

There are four types of strategic controls:

5. Premise control
6. Strategic surveillance
7. Special alert control
8. Implementation control

Premise Control

Strategy is built around several assumptions or predictions, which are called planning premises. Premise control checks systematically and continuously whether the assumptions on which the strategy is based are still valid. If a vital premise is no longer valid, the strategy may have to be changed.

The sooner these invalid assumptions are detected and rejected, the better are the chances of changing the strategy. The premise control is concerned with two types of factors:

1. Environmental factors

2. Industry factors

1. Environmental Factors: The performance of a firm is affected by changes in environmental factors like the rate of inflation, change in technology, government regulations, demographic and social changes etc. Although the firm has little or no control over environmental factors, these factors have considerable influence over the success of the strategy because strategies are generally based on key assumptions about them.

Example: A firm may assume massive increase in demand, and embark on an expansion plan. If suddenly there is recession and demand for the products of the firm fall down, it may have to change its strategic direction.

2. Industry Factors: Industry factors also affect the performance of a company. Competitors, suppliers, buyers, substitutes, new entrants etc. are some of the industry factors about which assumptions are made. If any of these assumptions go wrong, strategy may have to be changed.

Strategic Surveillance:

Strategic surveillance is a broad-based vigilance activity in all daily operations both inside and outside the organisation. With such vigilance, the events that are likely to threaten the course of a firm’s strategy can be tracked. Business journals, trade conferences, conversations, observations etc. are some of the information sources for strategic surveillance.

Special Alert Control:

Sudden, unexpected events can drastically alter the course of the firm's strategy. Such events trigger an immediate and intense reconsideration of the firm's strategy.

Example: The tragic events of September 11, 2001, created havoc in many US companies, especially the airline and hotel industry. Sudden acquisition of a leading competitor or an unexpected product difficulty (like defective tyres of Firestone) etc. may shatter a firm's strategy and require a rapid reconsideration of the strategy. Generally, firms develop contingency plans along with crisis teams to respond to such sudden, unexpected events.

Implementation Control

Strategy implementation takes place as a series of steps, programmes, investments and moves that occur over an extended period of time. Resources are allocated, essential people are put in place, special programmes are undertaken and functional areas initiate strategy related activities. Implementation control is aimed at assessing whether the plans, programmes and policies are actually guiding the organisation towards the predetermined objectives or not. Implementation control assesses whether the overall strategy should be changed in the light of the results of specific units and individuals involved in implementation of the strategy. Two important methods to achieve implementation control are:

3. Monitoring strategic thrusts
4. Milestone reviews

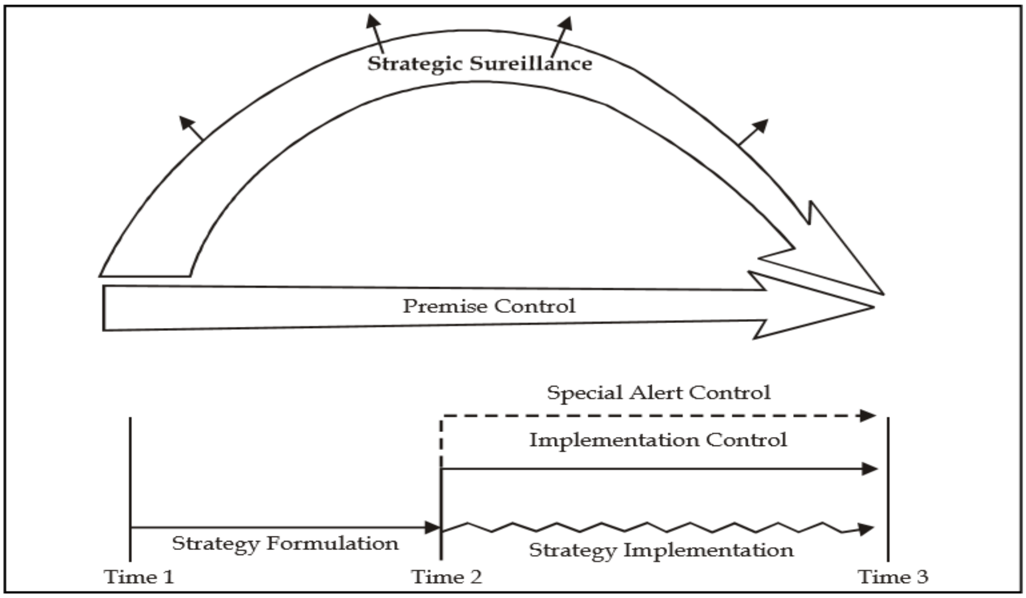
1.Monitoring Strategic Thrusts: Strategic thrusts are small critical projects that need to be done if the overall strategy is to be accomplished. They are critical factors in the success of strategy. One approach is to agree early in the planning process on which thrusts are critical factors in the success of the strategy.

Managers responsible for these -implementation controls will single them out from other activities and observe them frequently. Another approach is to use stop/go assessments that are- linked to a series of these thresholds (time, costs, success etc.) associated with a particular thrust.

2. Milestone Reviews: Milestones are critical events that should be reached during strategy implementation. These milestones may be fixed on the basis of.

d) Critical events
e) Major resource allocations

f) Time frames etc.



Network controls like PERT/CPM for project implementation are examples of milestone reviews. After doing a milestone review, managers often undertake a full-scale reassessment of the strategy to decide whether to continue or refocus the firm's strategy.

Implementation control is also done through operational control systems like budgets, schedules, key success factors etc.

The major characteristics of the above four types of strategic control are summarised in figure. Strategic controls are, thus, designed to systematically and continuously monitor the implementation of the strategy over long periods to decide whether the strategic direction should be changed in the light of unfolding events. However, for post-action evaluation and control over short periods, the firm needs operational controls.

Approaches to Strategic Control

According to Dess, Lumpkin and Taylor, there are two approaches to strategic control.

Traditional Approach

Traditional approach to strategic control is sequential:

5. Strategies are formulated and top management sets goals
6. Strategies are implemented
7. Performance is measured against goals

8. Corrective measures are taken, if there are deviations.

Control is based on a feedback loop from performance measurement to strategy formulation. This process typically involves lengthy time lags and often tied to a firm's annual planning cycle. This reactive measure is not sufficient to control a strategy. As already explained, this is because a strategy takes a long period for implementation and to produce results. The uncertain future requires continuous evaluation of the planning premises and strategy implementation. There is a better contemporary approach for strategic control.

Contemporary Approach

Under this approach, adapting to and anticipating both internal and external environment change is an integral part of strategic control. This approach addresses the assumptions and premises that provide the foundation for the strategy. The key question addressed here is: do the organisation's goals and strategies still fit within the context of the current environment? This involves two key actions:

3. Managers must continuously scan and monitor the external and internal environment
4. Managers must continuously update and challenge the assumptions underlying the strategy. This may even need changes in the strategic direction of the firm.

While strategic control requires the contemporary approach, operational control is generally done through traditional approach.

Operational Control

Operational control provides post-action evaluation and control over short periods. They involve systematic evaluation of performance against predetermined objectives. The major differences between strategic control and operational control are summarised in table.

Table 14.1: Differences between Strategic Control and Operational Control

Attribute	Strategic control	Operational control
1. Basic question	"Are we moving in the right direction?"	"How are we performing?"
2. Aim	Proactive continuous questioning of the basic direction of strategy	Allocation and use of orgnisational resources
3. Main concern	"Steering" the orgnisation's future direction	Action control
4. Focus	External environment	Internal orgnisation
5. Time horizon	Long-term	Short-term
6. Exercise of control	Exclusively by top management, may be through lower-level support	Mainly by executives of middle-level management on the direction of top management
7. Main techniques	Environmental scanning, information gathering, questioning and review	Budgets, schedules and MBO

To be effective, operational control systems, involve four steps common to all post-action controls:

5. Set standards of performance
6. Measure actual performance
7. Identify deviations from standards set
8. Initiate corrective action

Setting of Standards

The first step in the control process is setting of standards. Standards are the targets against which the actual performance will be measured. They are broadly classified into quantitative standards and qualitative standards.

Quantitative

These are expressed in physical or monetary terms in respect of production, marketing, finance etc. They may relate to:

5. Time standards
6. Cost standards
7. Productivity standards
8. Revenue standards

Qualitative

Qualitative criteria are also important in setting standards. Human factors such as high absenteeism and turnover rates, poor production quality or low employee satisfaction can be the underlying causes of declining performance. So, qualitative standards also need to be established to measure performance.

Measurement of Performance

The second step in operational control is the measurement of actual performance. Here, the actual performance is measured against the standards fixed. Standards of performance act as the benchmark against which the actual performance is to be compared. It is important, however, to understand how the measurement of performance actually takes place. Operationally measuring is done through accounting, reporting and communication systems. A variety of evaluation techniques are used for this purpose, which are explained in the next section. The other important aspects of measurement relate to:

Difficulties in Measurement

There are several activities for which it is difficult to set standards and measure performance.

Example: Performance of a worker in terms of units produced in a day, week or month can easily be measured. On the other hand, it is not easy to measure the contribution of a manager or to assess departmental performance. The solution lays in developing verifiable objectives, stated in quantitative and qualitative terms, against which performance can be measured.

Timing of Measurement

Timing refers to the point of time at which measurement should take place. Delay in measurement or measuring before time can defeat the very purpose of measurement. So measurement should take place at critical points in a task schedule, which could be at the end of a definable activity or the conclusion of a task.

Example: In a project implementation schedule, there could be several critical points at which measurement would take place.

Periodicity in Measurement

Another important issue in measurement is "how often to measure", Generally, financial statements like budgets, balance-sheets, and profit and loss accounts are prepared every year.

But there are certain reports like production reports, sales reports etc. which are done on a daily, weekly, monthly basis.

Identifying Deviations

The third step in the control process is identifying deviations. The measurement of actual performance and its comparison with standards of performance determines the degree of deviation or variation between actual performance and the standard. Broadly, the following three situations may arise:

4. The actual performance matches the standards
5. The actual performance exceeds the standards
6. The actual performance falls short of the standards

The first situation is ideal, but sometimes may not be realistic. Generally, a range of tolerance limits within which the results may be accepted satisfactorily, are fixed and deviations from it are considered as variance.

The ***second situation*** is an indication of superior performance. If exceeding the standards is considered unusual, a check needs to be made to test the validity of tests and the measurement system.

The ***third type of situation***, which indicates shortfall in performance, should be taken seriously and strategists need to pinpoint the areas where the performance is below standard and go into the causes of deviation. The analysis of variance is generally presented in a format called 'variance chart' and submitted to the top management for their evaluation. After noting the deviations, it is necessary to find the causes of deviation, which can be ascertained through the following questions: (Thomas)

4. Is the cause of deviation internal or external?
5. Is the cause random or expected?
6. Is the deviation temporary or permanent?

Analysis of variance leads to a plan for corrective action.

Taking Corrective Action

The last and final step in the operational control process is taking corrective action. Corrective action is initiated by the management to rectify the shortfall in performance. If the performance is consistently low, the strategists have to do an in-depth analysis and diagnosis to isolate the factors responsible for such low performance and take appropriate corrective actions. There are three courses for corrective action:

4. Checking performance
5. Checking standards
6. Reformulating strategies, plans and objectives.

Checking Performance

Performance can be affected adversely by a number of factors such as inadequate resource allocation, ineffective structure or systems, faulty programmes, policies, motivational schemes, inefficient leadership styles etc. Corrective actions may therefore include the change in strategy, systems, structure, compensation practices, training programmes, redesign of jobs, replacement of personnel, re-establishment of standards, budgets etc.

Checking Standards

When there is nothing significantly wrong with performance, then the strategist has to check the standards. A manager should not mind revising the standards when the standards set are unreasonably low or high level. Higher standards breed discontentment and frustration. Low standards make employee unproductive. So, standards check may result in lowering of standards if it is concluded that organisational capabilities do not match the performance requirements. It may also lead to elevation of standards if the conditions have improved to allow better performance. For example, better equipment, improved systems, upgraded skills etc. need modification in existing standards.

Reformulating Strategies, Plans and Objectives

A more radical and infrequent corrective action is to reformulate strategies, plans and objectives. Strategic control, rather than operational control, generally leads to changes in strategic direction, which will take the strategist back to the process of strategy formulation and choice. Techniques like total quality management (TQM) and ISO 9000 standards series are examples of very good control mechanisms. These are explained in below paragraph.

TQM is a management philosophy that aims at total customer satisfaction through continuous improvement of all organisational processes. The main elements of TQM are:

5. **Intense focus on the customer:** The customer includes not only outsiders but also internal customers.

   Concern for continuous improvement: TQM is committed to improve quality continuously.

6. **Improvement in the quality of everything the organisation does:** TQM relates not only to the final product but also how the organisation handles deliveries, responds to complaints etc.
7. **Accurate measurement:** TQM uses statistical techniques to measure every critical performance variable in the organisation's operations. These performance variables are then compared against standards or benchmarks to identify problems. The problems are traced to their roots, and causes are eliminated.
8. **Empowerment of Employees:** TQM involves all the employees in the improvement process. Teams are widely used in TQM programmes as empowerment vehicles for finding and solving problems.

Techniques of Strategic Control:

Organisations use many techniques or mechanisms for strategic control. Some of the important mechanisms are:

9. **Management Information systems:** Appropriate information systems act as an effective control system. Management will come to know the latest performance in key areas and take appropriate corrective measures.
10. **Benchmarking:** It is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. Best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control. Through this method, performance can be evaluated continually till it reaches the best practice level. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers firms a tangible method to evaluate performance.
11. **Balanced scorecard:** It is a method based on the identification of four key performance measures i.e. customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of financial and non-financial parameters are taken into account for evaluation.

12. **Key factor rating:** It is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. This is quite a comprehensive method as it takes a holistic view of the performance areas in an organisation.
13. **Responsibility Centres:** Control systems can be established to monitor specific functions, projects or divisions. Responsibility centres are used to isolate a unit so that it can be evaluated separately from the rest of the corporation. There are five major types of responsibility centres: Cost centres, Revenue centres, Expense centres, Profit centres and Investment centres. Each responsibility centre has its own budget and is evaluated on the basis of its performance.
14. **Network techniques:** Network techniques such as Programme Evaluation and Review Technique (PERT), Critical Path Method (CPM), and their variants, are used extensively for the operational controls of scheduling and resource allocation in projects. When network techniques are modified for use as a cost accounting system, they become highly effective operational controls for project costs and performance.
15. **Management by Objectives (MBO):** It is a system proposed by Drucker, which is based on a regular evaluation of performance against objectives which are decided upon mutually by the superior and the subordinate. By the process of consultation, objective-setting leads to the establishment of a control system that operates on the basis of commitment and self-control. Thus, the scope of MBO to be used as an operational control is quite extensive.
16. **Memorandum of Understanding:** This is an agreement between a PSU and the administrative ministry of the government in which both specify their respective commitments and responsibilities. The system works as an effective control on the performance of the PSU.

Role of Organisational Systems in Evaluation

There are six types of organisational system involved in evaluation.

7. **Information System:** Organisations evaluate by comparing actual performance with standards. Purpose of information management system is to enable managers to keep the track of performance through control reports. Whether strategic surveillance or financial analysis, are based on information system to provide

relevant & timely data to managers to allow them to evaluate performance & strategy & initiate corrective action

8. **Control System:** The control system is core of any evaluation process & is used for setting standards, measuring performance, analysing variances, & taking corrective action.
9. **Appraisal System:** This is the system that actually evaluates performance. When measuring the performance of managers, it is contribution to the organisational objectives which is sought to be measured. The evaluation process through appraisal system, measure the actual performance and provides for the control system to work.
10. **Motivation system:** The primary role of the motivation system is to induce strategically desirable behaviour so that managers are encouraged to work towards the achievement of organisational objectives. This system plays an important role in ensuring that deviations of actual performance with standards. Performance checks, which are a feedback in the evaluation process, are done through the motivation process.
11. **Development system:** The development system prepares the managers for performing strategic & operational tasks. Among the several aims of development, the most important is to match a person with the job to be performed. This in other words is matching actual performance with standards. This matching can be done provided it is known what a manager is required to do and what is deficient in terms of knowledge, skills & attitude. Such a deficiency is located through the appraisal system. The role of development system in evaluation is to help the strategists to initiate & implement corrective action.
12. **Planning System:** The evaluation process also provides feedback to planning systems for the reformulation of strategies, plans & objectives. Thus, planning system closely interacts with the evaluation process on a continual basis.