

Introduction to Strategic Management

Introduction

The word Strategy comes from the Greek word 'Strategos' which means a general. In military science, Strategy literally means the art & science of directing military forces in a war or battle. Today, the term strategy is used in business to describe how an organization is going to achieve its overall objectives. Most organizations have several alternatives for achieving its objectives. Strategy is concerned with deciding which alternative is to be adopted to accomplish the overall objectives of the organization.

Strategy is a Comprehensive long term plan. It tries to answer three main questions:

- What is the present position of the firm?
- What should be the future position of the firm?
- What should be done to attain the future position?

Definition

“Strategy is a plan of action or policy designed to achieve a major overall aim”- Oxford Dictionary

“Strategy is the determination of the basic long-term goals & objectives of an enterprise & the adoption of the course of action and the allocation of the resources necessary for carrying out these goals”- Alfred D Chandler

“Strategy includes the determination & evaluation of alternative paths to achieve an organization’s objectives & mission & eventually, a choice of the alternative that is to be adopted”- Lloyd L. Byars

The term Strategy can be defined in a Simple words as follows:

“Strategy is a broad long-term plan designed to achieve the overall objectives of the firm”

Nature & Characteristics of Strategies

1. Objective Oriented

Strategies are developed in order to achieve the objectives of the organization. To formulate strategies, one has to know the objectives that are to be pursued & also the policies that must be followed.

2. Future Oriented

Strategy is a future oriented plan. It is designed to attain future position of the organization. Through Strategy, management studies the present position of the organization & their aims at attaining the future position of the organization. The strategy provides answer to certain questions relating to

- Profitability of the present business
- Continuity of the present business
- Entry into different businesses in future
- Effectiveness of the present policies of the organization.
- Growth & expansion of the business in the long run.

3. Unified, Comprehensive and Integrated

A Strategy is not Just plan. It is a unified, Comprehensive & integrated plan. It is unified as it unifies all the parts of sections of the organization together. It is comprehensive as it covers all the major aspects or areas of the organization. It is integrated as all the parts of the plan are compatible with each other and fit together well.

4. Strategy Alternatives

Organizations need to frame alternative strategies. It is not sufficient to frame one or two strategies. Small organizations survive with one or two strategies due to fewer complexities in their business. However, large organizations need to frame alternative strategies in respect of growth & survival of the organization. It can be into four broad groups:

- Stable Growth Strategy
- Growth Strategy
- Retrenchment Strategy
- Combination Strategy

5. Relates to the Environment

The internal and external environment affects the strategy formulation & implementation. The internal environment relates to mission & objectives of the firm, the labor management relations, and the technology used, the physical, financial & human resources. The external environment relates Competition, Customer, Channel, intermediaries, Government policies & other social, economic & political factors.

6. Allocation of Resources

For effective implementation of Strategy, there is a need for proper allocation of the resources. Proper allocation of resources is required to undertake the various activities so as to attain objectives. The resources can be broadly divided into 3 groups:

- Physical resources such as plant & machine
- Financial resources i.e. Capital
- Human resources i.e. Man Power

7. Universal Applicability

Strategy is universally applicable. It is applicable to business organization as well as to non-business organization. This is because every organization need to frame strategies for their growth & survival. The presence of Strategies keeps the organizations moving in the right direction.

8. Periodic Review

Strategies need to be reviewed periodically. Such review is required to revise the strategies depending upon the changing needs of the business. Periodic review of strategies is required to gain competitive advantage in the market.

9. Applicable to all functional areas

Strategies are applicable to all functional areas. The functional areas include production, marketing, finance, human resources management, etc. Strategies aid in planning, organizing, directing & controlling activities in all functional areas.

Strategic Management

Definition

In the words of Jauch & Glueck “Strategic Management is a stream of decisions & actions which leads to the development of an effective strategy or Strategies to help achieve corporate objectives The Strategic Management process is the way in which strategists determine objectives & make strategic decisions”

H.L. Ansoff defines, “strategic Management is a systematic approach to a major & increasingly important responsibility of general management to position & relate the firm to its environment in a way which will assure its continued success & make it secure from surprises.

Process/ Elements of Strategic Management

The strategic management process can be broadly divided into three phases. Each phase consists of a number of steps The three phases are as follows:

- I. Strategy formulation
- II. Strategy Implementation
- III. Strategy Evaluation

I. Strategy formulation

Strategy formulation can also be referred as strategic planning. The strategy formulation involves the following steps:

1) Framing Mission & Objectives

The first step in the formulation of a strategy is to frame mission & objectives of the firm. The mission states the philosophy & the purpose of the organization. The objectives are the aims or ends, which the organization seeks to achieve. The mission & objective must be clearly defined.

2) Analysis of the Internal Environment

After setting the objectives or goals, the management needs to make an analysis of the internal environment. The analysis of the internal environment may be done prior to setting of objectives. The internal environment refers to manpower, machines, methods, procedures & other resources of the organization. A proper analysis of the internal environment reveals strength & weakness of the organization.

3) Analysis of the External Environment.

The management must conduct an analysis of the external environment. The external environment refers to government, competition, consumers, technological development & other environment factors that affect the organization. A proper analysis of the external environment reveals opportunities & threats

4) Gap analysis

The management also conducts “gap analysis”. For this purpose, the management must compare & analyze its present performance level & the desired future performance level. Such a comparison would reveal the extent of gap that exists between the present performance & future expectations of the organization. If there is a sufficient gap, the management must think of suitable measures.

5) Framing Alternative Strategies

After making a SWOT analysis & the Gap Analysis, the management needs to frame alternative strategies to accomplish the objectives of the firm. There is a need to frame alternative strategies as some strategies may be put on hold & other strategies may be implemental.

6) Choice of strategies

The organization cannot implement all the alternative strategies. Therefore the firm has to be selective. The organization must select the best strategy depending upon the situation. Before selecting the best strategy, the organization needs to conduct a cost-benefit analysis of the alternative strategies. The strategy, which gives the maximum benefits at minimum cost, would be selected.

II. Strategy Implementation

The strategies are formulated for each and every functional department such as production, marketing, finance & personnel. Once the strategies are formulated, then the next stage is implementation of such strategies.

The strategy implementation involves the following elements:

1) **Formulation of plans, programmes and projects**

There is a need to frame plans, programmes and projects. Strategy by itself does not lead to action. For instance, if expansion strategy is formulated, then various types of expansion plan need to be formulated. An expansion plan would involve expansion in production capacities of existing product &/or development and production of new products

Plans result in different kinds of programmes. A programme is a broad plan which includes goals, policies, procedures and other aspects required to implement a plan. For instance, there can be R & D programme for the development of new product. Programmes lead to the formulation of project which is a specific programme for which the time schedule and cost are predetermined.

2) **Project Implementation**

A project passes through various stages before the actual implementation.

The various phases include

- Conception phase, where idea are generally generates for future projects
- Definition phase, where preliminary analysis of the project is undertaken.
- Planning & Organizing phase, where the planning and organizing of resources required to undertake the project is decided
- Implementation Phase, where details of the implementation of the product such as awarding contracts, order placement etc. are decided.
- Clean-up Phase, which deals with disbanding the project infrastructure & banding over the plant to the operating personnel.

3) Procedural Implementation

The organization needs to be aware of regulatory frame work of the regulatory (government) authorities before implementing strategies. The regulatory elements to be reviewed are as follows:

- Regulation in respect of foreign technology
- Foreign collaboration procedures
- FEMA regulation
- Capital issue guidelines
- Foreign trade regulations etc.

4) Resource Allocation

It deals with the arrangement & commitment of physical, financial and human resources to various activities so as to achieve the organization goals. The strategies need to allocate resources to the various division, department etc. The resources need to be allocated depending upon the importance of activities in each of the departments or divisions. It includes allocation of manpower, machines, tools, money and other resources for each and every activity.

5) Structural Implementation

Organization structure is the frame work through which the organization operates. There can be various organizational structure for the implementation of Strategy, it can be

- Entrepreneurial (line) structure, which is suitable for small owner-manager organization.
- Functional structure, which is suitable for multi-department organization.
- Matrix Structure, which is suitable for multi-project/product organization.

6) Functional Implementation

It deals with the implementation of the functional plans and policies. For effective implementation of strategy, strategies have to provide direction to functional managers regarding the plans and policies to be adopted. Plans and policies need to be formulated and implemented in all the functional areas such as production, marketing, finance and personnel.

7) Behavioral Implementation

It deals with those aspects of strategy implementation that have an impact on the behavior of strategists in implementing the strategies. It deals with issues of leadership, corporate culture, corporate politics and use of power, personal value, business ethics and social responsibility.

III. Strategy Evaluation

Evaluation of strategy is that phase of strategic management process in which managers try to assure that the strategic choice is properly implemented and is meeting the objectives of the enterprise. It involves the following elements.

1) Settling of Standard

The strategists need to establish performance targets standards and tolerance limit for the objectives, strategies and implementation plans. The standard can be established in terms of quantity, quality, cost and time. Standards need to be definite and they must be acceptable to employees.

2) Measurement of Performance

The next step is to measure the actual performance. For this, the manager may ask for performance reports from the employees. The actual performance can be measured both in quantitative as well as qualitative ways. The actual performance also needs to be measured in terms of time and the cost factor.

3) Comparison of actual performance with standards

The actual performance needs to be compared with the standards. There must be objective comparison of the actual performance against the predetermined targets or standards. Such comparison is required to find out deviation, if any.

4) Finding out deviations

After comparison, the managers may notice the deviations. For instance, if a particular brand's sales targets was 1000 units for a certain period and the actual sales are only 9000 units for that period then the deviations are to the extent of 1000 units.

5) Analyzing deviations

The deviation must be reported to the higher authorities. The higher authorities analyze the causes of deviations. For this purpose, the higher authorities may hold necessary discussions with functional staff. For instance, the deviation of 1000 units may be due to poor promotion, faulty pricing, poor distribution and so on. The exact cause or causes of deviation must be identified.

6) Taking corrective measures

After identifying the causes of deviations, the managers need to take corrective steps to correct the deviations. At times, there may be a need for resetting of goals and objectives or re-framing plans, policies and standards. The corrective steps must be taken at the right time so as to accomplish the objectives.

Levels of Strategy

The strategy can be broadly classified into three levels:

- ❖ Corporate Strategy
- ❖ Business Strategy
- ❖ Functional (Operational) Strategy

❖ **Corporate Strategy**

It describes a company's overall direction in terms of its general attitude towards growth and the management of its various business and product lines. The corporate strategy typically fits within the three main categories:

- Stability Strategy
- Growth Strategy
- Retrenchment Strategy

• **Stability Strategy**

Firm using stability strategy try to hold on to their current position in the product market. The firms concentrate on the same products and in the same markets. The stability strategy is followed by those firms which are satisfied with their present position. This strategy is suitable in a simple and stable environment. A stability strategy is less risky as it offers safe business to the organization unless there are major changes in the environment.

• **Growth Strategy**

It is also called as expansion strategy, when a firm aims at substantial growth strategy. A growth strategy is one that an enterprise pursues when it increases its level of objectives upward in significant increment, much higher than an exploration of its past achievement level. The most frequent increase indicating a growth strategy is to raise the market share and/ or sales.

In order to achieve higher targets than before, a firm may enter into new markets, introduce new product lines, serve additional market segments and so on. This strategy involves greater effort and risk as compared to stability strategy.

❖ **Business Strategy**

It usually occurs at the strategic business unit level or product level. It emphasize improvement of the competitive position of a firm's products or services in a specific industry or market segment served by that business unit. There can be two types of business strategy- Competitive and Cooperative strategy unit or firm may try to co-operate with another firm in production and marketing of goods or services by forming alliances like Joint ventures.

❖ **Functional Strategy**

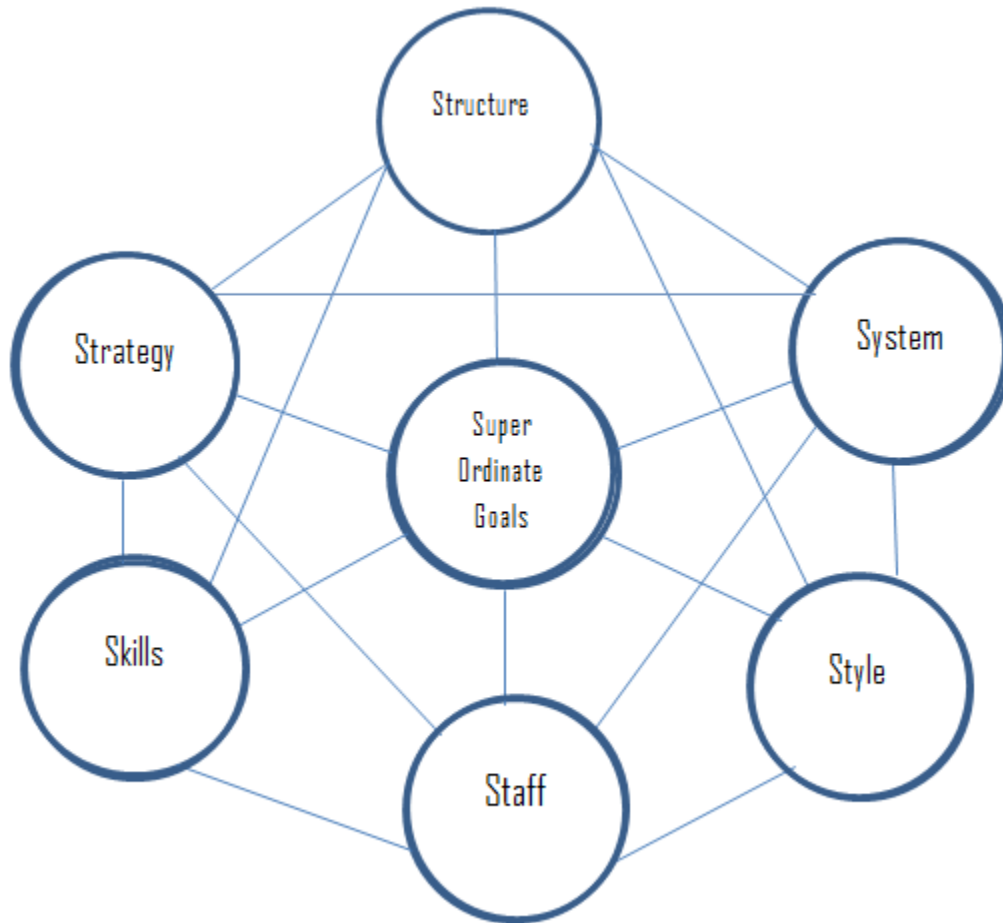
It relates to the functional areas such as production, marketing, finance, personnel, etc. The functional strategy aims at achieving functional objectives which in turn would help to achieve business unit and overall organizational objectives.

7-S FRAMEWORK

It is essential for an organization to know whether the time is right for change. In this context, the 7-S framework, developed by Mc.Kinsey Company, a well known consulting firm in the United States, in the late 70's, can be helpful. It can provide insight into an organization's working and help in formulating plans for improvement.

The main thrust of change is not connected only with the organizational structure. It has to be understood by the complex relationship that exists between strategy, structure, system, style, staff, skill and super-ordinated goal. This is called the 7-S of the organization.

The 7-S framework suggests that there are several factors that influence an organization's ability to change. The variables involved are interconnected. Hence significant changes cannot be achieved without making changes in all the variables. The framework has no starting point or implied hierarchy. It is also difficult to pinpoint which of the seven S's could be the driving force of change in an organization at a particular point of time.



- Strategy
(As discussed earlier in this chapter)
- Super Ordinate Goals
The Super- ordinate goal is alike to the organization's purpose. It is a set of values and aspirations going beyond the formal statement of corporate objectives. They can be considered as fundamental ideas around which a business is built. Hence they represent the main values of the organizations. They can also provide the broad notions of future direction.
- Structure
Design of organization structure is a critical task for the top management. It refers to the more durable organizational arrangements and relationships and forms the skeleton of the edifice of organizations. It prescribes formal relationships, communication channels roles to perform and rules & procedures.

- Reduction of external uncertainty. Forecasting research and planning help in achieving this.
- Reduction in internal uncertainty due to variable, unpredictable, random human behavior. Control mechanisms help in achieving this.
- Coordination of the activities of the organizations to enable it to have a focus. Departmentalization, specialization, division of labor and delegation of authority help in achieving this.

➤ System

System refers to the rules and procedures both formal and informal system complement the organizational structure. They are similar to the term infrastructure.

System include production, planning and control systems, costing, capital budgeting, recruitment, training & development, planning & budgeting and performance evaluation.

➤ Style

Top managers in organization use style to bring about change. The style of an organization becomes evident through the patterns of actions taken by the top management over a period of time. These decisions are also likely to influence the people in the lower levels of the organizations.

Organizational reporting relationships convey the style. In some organizations, quality control may be embedded in the manufacturing process, in some others, it may be a separate function under the Chief Executive Officer. Some organizations may prefer R & D to be a part of the engineering. Study of the style conveys the process of management, which is prevalent in the organization whether it is evolving or still having traditional outlook.

➤ Staff

Proper staffing ensures human resource's potential of a higher order, which can contribute to the achievement of organizational goals. Staffing includes selections, placement, training and development of appropriately qualified personnel.

Staffing refers to the entire organization. The recruitment process may vary for different levels of organization for different kind of jobs. It can start from appointing young recruits to the mainstream of the organization's activities & their career progression.

➤ Skills

Skill refers to crucial attributes or capabilities of an organization. They are used to describe that which is found most in the organization. Eg. **Hindustan lever** is known for its marketing, **TELCO** for its engineering skills, **SONY** for its new product development etc.

Skills are developed over a period of time & are a result of the interactions of a number of factors, could be personnel, top management, structure, system etc. Hence when a strategic decision is to be made, it is necessary to build new skills. Skills in the 7-S framework can be considered as the distinctive competence.

STRATEGIC INTENT

MISSION

All management experts unanimously agree that clarifying the mission and defining the business is the starting point of business planning. Many organizations define the basic reason for their existence in terms of a mission statement. An organization's mission includes both a statement of organizational philosophy and purpose. The mission can be seen as a link between performing some social function and attaining objectives of the organization.

A well-conceived mission statement defines the fundamental, unique purpose which sets a company apart from the other firms of its type and identifies the scope of the firm's operation in terms of the product/ services offered and the markets served. It may also include the firm's philosophy about how it does the business and treats the employees. It puts into words not only what the company is now, but also what it wants to become- management's strategic vision of the firm's future.

The mission of **General Motors** states " The fundamental purpose of General Motors is to provide products and services of such quality that our customers will receive superior value, our employees and business partners will share in our success and our stock holders will receive a sustained, superior return on their investment.

Some management experts consider vision and mission as two different concepts. They are of the view that a mission statement describes what the organization is now and a vision statement describes what the organization would like to be in future. However, we would like to include the vision concept in the mission statement. Therefore a mission statement tells who we are & what we would like to become.

VISION

Vision is a descriptive image of what the company wants to be or want to be known for. Vision reminds us of what the goals are, without vision performance of the business are likely to be affected. A vision is a statement for where the organization is heading over the next five to ten years. It is the statement that indicates mission to be accomplished by the management in distant future.

Warren Bennis and Burt Nanus described the role of vision as follows:

“ To choose a direction, a leader must first have developed a mental image of a possible and desirable future state of organization, which we call a vision. Vision articulates a view of a realistic/ credible, attractive future for the organization. With a vision, the leader provides an important bridge from the present to the future of the organization.

BUSINESS OBJECTIVES & GOALS

Business planning starts with setting of the objectives. Objectives are the ends which the organization intends to achieve through its existence and operations. Organizational objectives vary from organization to organization.

The two terms ‘Organization & Goals’ are normally used interchangeably. However, some authors try to make a difference between the two terms. They consider objectives as broad aims whereas goals are more specific in nature. The objectives can be divided into sub-objectives call goals. For instance, a company may state one of its objectives as ‘increase in market share’ whereas a goal may be stated as ‘to increase market share of brand A by 10% during the current year and that of brand B by 20%. Further, a goal when defined precise and exact term can be termed as target. For instance, a target can be stated as ‘to sell 10,000 units of brand A during current year.

Objectives play an important role in the functioning of any organization. Objectives provide the basis for strategic decision making. It provides the basis for planning, organizing, co-ordinating, direction and control. Therefore, there is a need to setup clear and well defined objectives.

FUTURE OF BUSINESS OBJECTIVES

- 1) Ultimate goals- Objectives are the aims, goals and the destination where the organization must have a clearly defined objectives differentiate one company from the others. Every organization must have a clearly defined objective.
- 2) Future Oriented- Objectives are future destinations which the organization wants to reach. However, these objectives are finalized after considering the past trends and the past performance of the organization.
- 3) Guides- Objectives, whether economic, social or human guide the organization in taking relevant and quick decision. It guides in formulating the policies, the programmes and the plans.

- 4) Complex- Business environment is very complex. Change in one environment may have different impacts on the other environmental factors. Moreover, there environmental factors are uncontrollable. It has to be modified continuously in order to suit the changed environment.
- 5) Qualitative – There are certain objectives which are of qualitative nature, especially advertising objectives. Advertising objective can be creating awareness, changing attitudes, perceptions, enabling recognition of the brand etc. Therefore qualitative objectives are difficult to measure.
- 6) Quantitative- It is those which can be measured in volume or value terms. Marketing objectives are generally of quantitative nature. Some of the marketing objectives are increasing sales, increasing market share, profit etc.

Significance/ Importance of Business Objectives

1) Help in Defining the Organization

Objectives help in defining the organization in its environment. By stating its objectives, an organization commits itself to what it has to achieve for the members of the society i.e. the government, customers, suppliers, dealers and even the employees recognize the organization through its objectives.

2) Facilities Planning

Listing of objectives helps the organization to plan its activities. Planning involves setting of objectives and then framing short range and long range plans so as to undertake the various activities to accomplish objectives. Without framing proper objectives, it is not possible to frame the plans.

3) Facilities Direction

Objectives provide direction to the employees to undertake the various activities in the organization and employees know the right direction in which they are moving.

4) Provide basis for evaluation

Objectives help in evaluation and control. Objectives provide a standard against which actual performance can be evaluated. If deviations take place, the organization can adopt suitable control measure. In the absence of objectives an organization would have no clear basis for evaluating its performance.

5) Facilities decision making in all functional areas

Objective facilitate systematic decision making on the part of the managers in the organization. Decision making in all the functional areas like marketing, production, finance and personnel is facilitated due to the presence of objectives. In the absence of well-defined objectives, the decision making process would be hampered.

6) Reduce wastages

Proper objectives help to reduce wastage in the organization. All the resources in the organization are put to proper use, wastages are avoided or minimized.

7) Develops team work

Well defined objectives facilitate team work in the organization. The members of the organization work in close cooperation with each other to attain the goals. Team work brings success to the organization.

8) Generates higher efficiency

When objectives are set properly there can be proper organizing and utilization of resources. This would result in higher efficiency both in terms of quality and quantity in the organization.

9) Ensures survival and success of the firm

Objectives facilitate the implementation of strategies in the organization. Proper implementation of strategies ensures survival and success of the organization.

10) Ensures proper organizing of resources.

Objectives provide the target to be achieved over a period of time. Depending on the targets, the organization can make proper arrangement of physical, financial and human resources. In the absence of a well-defined objective, manager may not be able to organize the right amount of resources.

Characteristics of an Effective Mission Statement

1) Clarity

It should be clear and easy to understand the philosophy and purpose of the organization. It should be clear to everyone in the organization so that it acts as a guide to action. However, it is to be noted that clear mission statement by itself does not ensure success; it only provides a sense of purpose and direction.

2) Feasibility

It should not state impossible tasks. A mission statement should always aim higher but not impossible goals. It should state a purpose which should be realistic and attainable. A company should always consider its abilities and resources before making a mission statement.

3) Current

It may become outdated after sometime. A mission statement may hold good for a certain number of years say 10 year. Very few definition of purpose and mission of a business have anything like a life expectancy of thirty, let alone fifty years. It should be modified or revised taking into consideration the change in the internal and external environment.

4) Enduring

It should be a motivating force guiding and inspiring the individuals in the organization for higher and better performance. For instance, mission statement of education institution may state “higher and still higher achievements” may motivate the individuals in the institution.

5) Distinctive

It should be unique and distinctive. It should not appear similar as compared to the other competitors or companies. It is true that the mission statement of most companies aim higher in terms of market share, service to the customers, quality products & service, but the drafting of the mission statement must be done in such words that it brings uniqueness to the mission statement.

6) Precise

It should contain few words and not a very long statement. It should sound good and look good. It should be a very attractive statement. This does not mean that it should contain only two to three words.

7) Comprehensive

It should be comprehensive in nature. It should indicate the philosophy, the purpose and the strategy to be adopted to accomplish it. It should not only state only philosophy or purpose.

How does Mission Statement help a firm? (Importance)

- It provides direction in planning and in setting objectives of the firm.
- It helps the personnel at various levels in the organization to understand the direction in which they should move.
- It helps the firm to focus on the customers as the very basis of the business is the customer.
- It helps the firm to respect and reward the individuals i.e. employees, the shareholders, customers, suppliers and other members of the society who are involved in some way or the other with the organization.
- It not only helps in setting objective but also in framing policies and strategies of the firm.
- A mission statement establishes a sound organizational culture.

Corporate Social Responsibility

Business is basically an economic activity merely on profit maximization. It is a group effort, as there is participation directly or indirectly, of the workers, management, customers, shareholders, government and the society. Business cannot function independently and depends on the society for supply of raw materials, capital, labor and other requirements.

Therefore, there is a need to have social responsiveness in strategic management. This is because greater social responsiveness means good business.

Social Responsibility towards Various Groups

Responsibility towards Employees. The survival and success of a business depends upon the quality and commitment of its human resources. Therefore a business organization needs to fulfill its social responsibility towards its employees in the following manner.

- The company should provide job security to its employees
- Employees should be paid proper and timely wages and other monetary incentives
- The company should take adequate measures to protect the health and life of the employees.
- The workers should be provided with good working condition such as good lighting, ventilation, proper working hours and soon.
- The company should adopt proper personnel policies relating to training, transfer, promotion, performance appraisal etc.
- There should be proper grievance procedure to handle employee's complaints.
- The management should recognize the rightful trade union, representing majority of the workers.

Responsibility towards Shareholders

- The shareholders expect optimum utilization of their funds.
- The management should make a proper disclosure regarding the affairs of the company.
- The shareholders expect periodic information about important happening or development in the company.
- The shareholders would appreciate if the company directors indulge in fair practices on the stock exchange
- They expect a fair return on their investment.

Responsibility towards Customers

- The company should produce quality good
- The company should charge fair price.
- The company expects honest advertising and information
- The company should make the good available regularly and not create artificial shortage to rise prices
- The firm must provide good after sales service
- The company should deal with the complaint of the customers immediately
- The consumers expect healthy competition in the market and not monopolistic hold over the market by one dominant seller

Responsibility towards Society

- The company should take all possible measures to prevent air, water and soil pollution
- The business firms should make indiscriminate use of the scarce resources in the interest of the society
- The society expects that companies should make efforts to uplift backward areas by starting and developing industries in such areas.
- The business firms should uplift the weaker section of the society by making efforts to provide jobs and also social activities
- The society expects that the companies should work for communal harmony and not to participate in anti-social activities.
- Business firm should donate generously to various social causes such as eradication of poverty, illiteracy etc.

Responsibility towards Government

- The government expects co-operation and financial assistance from the business sector in implementing socio economic programs
- The government expects the business sector to pay taxes and duties regularly
- The business firms should strictly observe government's rules and regulations
- The business firms should work toward political stability in the country
- The business forms should avoid seeking unfair favor from government authorities
- The corporate sector should provide assistance to the government during natural calamities.

Organizational Appraisal

Dynamics of Internal Environment

An organization uses different types of resources and exhibits a certain type of behavior. The interplay of these different resources along with the prevalent behavior produces synergy or antagonism within an organization, which leads to the development of strengths or weakness over a period of time.

Some of these strengths make an organization especially competent in a particular area of its activity causing it to develop competencies. Organizational capability rests on an organization's capacity and the ability to use its competencies to excel in a particular field, thereby giving it a strategic advantage.

The resources, behavior, strengths and weaknesses, synergistic effects and competencies of an organization determine the nature of its internal environment. Following is the diagram showing the framework that we adopt for an explanation of the process of development of strategic advantage by an organization



Organizational Resources

The dynamics of the internal environment of an organization can be best understood in the context of the resources-based view of firms or the resources-based

theory of strategy. A firm is a bundle of resources, tangible and intangible, that include all assets, capabilities, organizational process, information, knowledge etc. These resources could be classified as physical, human and organizational resources. The physical resources are the technology, plant, and equipment, geographical location etc. present in an organization. The organizational resources are the formal systems and structures as well as informal relation among group. The resources of an organization can ultimately lead to strategic advantage for it if they possess four characteristics i.e. if these resources are valuable, rare, costly to imitate non substitutable.

Organizational Behavior

IT is the manifestation of the various forces and influences operating in the internal environment of an organization that create the ability for, or place constraints on the usage of resources. Organizational behavior is unique in the sense that it leads to the development of a special identity and character of an organization. Some of the important forces and influences that affect organizational behavior are the quality of leadership, management philosophy, shared values and culture, quality of work, environment and organizational climate, organizational politics, use of power etc.

Strengths and Weaknesses

Organizational resources and behavior do not exist in isolation. They combine in a complex fashion to create strengths and weakness within the internal environment of an organization. Strength is an inherent capability which an organization can use to gain strategic advantage. A weakness, on the other hand is an inherent limitation or constraint which creates a strategic advantage for an organization.

Strengths and weaknesses do not exist in isolation but combine within a functional area and also across different functional areas to create synergetic effects.

Synergetic Effects

It is inherent nature of organizations that strengths and weaknesses, like resources and behavior, do not exist individually but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more

than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage. In effect, what we have is a situation where attributes do not add mathematically but combine to produce an enhanced or a reduced impact. Such phenomenon is known as the synergistic effect. Synergy is an idea that the whole is greater or lesser than the sum of its part. It is also expressed as the “Two plus two is equal to five or three” effect.

Competencies

On the basis of its resources and behavior, an organization develops certain strengths and weaknesses which when combined lead to synergistic effects. Such effects manifest themselves in terms of organizational competencies. Competencies are special qualities possessed by an organization that makes them withstand the pressures of competition in the market place. In other words the net results of the strategic advantages and disadvantages that exist for an organization determines its ability to compete with its rivals. Other terms frequently used as being synonymous to competencies are unique resources, core competencies, invisible assets, embedded knowledge etc.

When an organization develops its competencies over a period of time and hones them into a fine art of competing with its rivals, it tends to use these competencies exceedingly well. The capability to use the competencies exceedingly well turns them into core competencies.

When a specific ability is possessed by a particular organization exclusively or relatively in large measure, it is called a distinctive competence.

Organizational Capability

Organizational capability is the inherent capacity or potential of an organization to use its strengths and overcome its weaknesses in order to exploit the opportunities and face the threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use. Without capability, resources even though valuable and unique, may be worthless.

Since organizational capability is the capacity or potential of an organization, it means that it is a measurable attribute. And since it can be measured, it follows that organizational capability can be compared yet, it is very difficult to measure organizational capability as it is, in the ultimate analysis, a subjective attribute. As an

attribute, it is the sum total of resources and behavior, strengths and weakness, synergistic effects occurring in and the competencies of any organization.

Capabilities are the outcomes of an organization's knowledge base i.e. the skill and knowledge of its employees. There is a growing body of opinion that considers organizations as reservoirs of knowledge, in which case they are all learning organizations.

Strategic and Competitive Advantages

Strategic advantages are the outcomes of organizational capabilities. They are the result of organizational activities leading to rewards in terms of financial parameters, such as profit or shareholder, value and/ or non-financial parameters, such as market share or reputation. In contrast, strategic disadvantages are penalties in the form of financial loss or damage to market share. Clearly such advantages or disadvantages are the outcome of the presence or absence of organizational capabilities. Strategic disadvantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantage. Higher the profitability better is the strategic advantage. They are comparable in terms of historical performance of an organization over a period of time or its current performance with respect to its competitors in the industry.

Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom the rewards or penalties could be measure. So, outperforming rival in profitability or market standing could be a competitive advantage for an organization. Competitive advantage is relative rather than absolute and it is to be measured and compared with respect to other rivals in the industry.

Organizational Capability factors

Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development. It is also feasible to measure and compare capabilities in functional areas. Thus, a company could be considered as inherently strong in marketing owing to a competence in distribution skills or a company could be competitive in operations owing to superior research and development infrastructure.

Organizational capability factors are the strategic strengths and weaknesses existing in different functional areas within an organization, which are of crucial importance to Strategic formulation and implementation. Other terms synonymous to organizational capability factors are strategic factors, strategic advantage factors, corporate competence factors etc.

We now describe capability factors in the six functional areas of finance, marketing, operations, personnel, information and general management. For each capability factor, we first define that factor, point out some of the important elements that support capability in an area, give a few illustrations of typical strengths and lastly, provide a few examples from real life business situations to help enhance your understanding.

Financial Capability

Financial capability factors relate to the availability, usages and management of funds and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies.

Some of the important factors which influence the financial capability of any organization are as follows:

1. Factors related to sources of funds
 - a. Capital Structure, procurement of capital, controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus and relationship with tenders, banks and financial institutions.
 - b. Factors related to usage of funds capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution and relationship with shareholders.
 - c. Factors related to management of funds, financial, accounting and budgeting systems, management control system, state of financial health, cash inflation, credit return and risk management, cost reduction and control and tax planning and advantages

Based on the above factors, a number of strengths and weaknesses can be found that affect the financial capability of organization.

2. Marketing Capability

Marketing capability factors relate to the pricing, promotion and distribution of products or services and all the allied aspects that have a bearing on an organizations capacity and ability to implement its strategies.

Some of the important factors which influence the marketing capability of an organization are as follows.

- a. Product related factors: Variety, differentiation, mix quality, positioning, packaging etc.
- b. Price related factors: Pricing objectives, policies, changes, protection, advantages etc.
- c. Place related factors: Distribution, transportation and logistics, marketing channels, marketing intermediaries etc.
- d. Promotion related factors: Promotional tools, sales promotion, advertising, public relations, etc.
- e. Integrative and systematic factors: marketing mix, market standing, company image, marketing organization, marketing system, marketing management information system etc.

3. Operations Capability

Operations capability factors relate to the production of product or services, use of material resources and all allied aspects that have a bearing on an organization capacity and ability to implement its strategies.

Some of the important factors which influence the operations capability of an organization are as follows:

- a. Factors related to the production system: Capacity, location, lay-out, product or service design work systems, degree of automation, extent of vertical integration etc.
- b. Factors related to the operations and control system: Aggregate production planning, material supply, inventory cost and quality control, maintenance systems and procedures etc.
- c. Factors related to the R & D System: Personnel facilities, product development, patent rights, level of technology used, technical collaboration and support etc.

4. Personnel Capability

Personnel Capability factors relate to the existence and use of human resources and skills and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies. Some of the important factors which influence the personnel capability of an organization are as follows.

- a. Factors related to the personnel system: Systems for manpower planning, selection, development, compensation, communication and appraisal, position of the personnel department within the organization, procedures and standard etc.
- b. Factors related to the organizational and employee characteristics
Corporate image, quality of managers, staff and workers perception about an image of the organization as employer, availability of development opportunities for employees, working conditions etc.
- c. Factors related to industrial relations
Union management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale etc.

5. Information management capability

Information management capability factors relate to the design and management of the flow of information from outside into and within an organization's capacity and ability to implement its strategies.

Some of the important factors which influence the information capability of an organization are as follows.

- a. Factors related to acquisition and retention of information sources, quality, quantity and timelines of information, retention capacity and security of information.
- b. Factors related to processing and synthesis of information
database management, computer systems, software capability and ability to synthesize information.
- c. Factors related to retrieval and usage of information. Availability and appropriateness of information formats and capacity to assimilate and use information
- d. Factors related to transmission and dissemination. Speed, scope, width and depth of coverage of information and willingness to accept information.

- e. Integrative Systemic and supportive factors: Availability of IT infrastructures, its relevance and compatibility to organizational needs, up gradation of facilities, willingness to invest in state of the art systems, availability of computer professionals and top management support

6. General Management Capability

It relates to the integration, co-ordination and direction of the functional capabilities towards common goals and allied aspects that have a bearing on the organization's capacity and ability to implement its strategies.

Some of the important factors which influence the general management capability of an organization are as follows:

- a. Factors related to the general management system: Strategic management system, processes related to setting strategic intent, strategy formulation and implementation machinery, Strategy evaluation system management information system, corporate planning system, rewards and incentives systems for the top managers etc.
- b. Factors related to general managers orientation, risk-propensity, values, norms, personal goals, competence, capacity for work, track record, balance of functional experience, etc.
- c. Factors related to external relationship: Influence on and rapport with the government, regulatory agencies and financial institution, Public relations sense of social responsibility, philanthropy, public image as corporate citizen etc.
- d. Factors related to organizational climate: Organizational culture, use of power, political processes, balance of vested interests, introduction , acceptance and management change, nature of organizational structure and controls etc.

Internal Factors evaluation Matrix

Every organization has its strengths and weakness. The strengths and weakness do occur in varying degrees in the functional areas such as production (Operation), marketing, finance, personnel and so on. A firm must find out its strengths and weaknesses on all its functional areas so as to minimize its weaknesses and consolidate its strengths.

An internal audit needs to be conducted in respect of strengths and weaknesses of the functional areas. A summary steps in conduction internal audit is to develop an Internal Factor Evaluation (IFE) matrix. The IFE matrix is an important tool of strategy formulation. This tool evaluates the major strengths and weaknesses in the functional areas of a business. It also provides a basis for identifying and evaluating the relationship among those areas.

The IFE Matrix can be developed through the following steps.

a. Identifying Critical success factors:

The management must identify the critical success factors in all the functional areas. List out about 10 to 15 vital factors that are essential for the success of the organization. Some of the factors may be strengths and some others may be the weaknesses. List out the strengths followed by weaknesses. As far as possible state the factors with percentages, ratios and comparative figures. For instance, market share increased by 10% net profit grew by 20% bad debts reduced to 1% of credit sales and so on.

b. Assign weight to each factor:

After specifically listing the vital internal factors, the management must assign a weight that ranges from 1.0 (All important) to 0.0 (not all important) to each factor. The weight assigned to each factor indicates the relative importance of the factor to become successful in the industry.

It is to be noted that regardless of whether a key factor is an internal strength or weakness, factors that have greatest impact on organizational performance should be assigned the highest weights. The total of all weights must come to 1.0. The weight are industry based

c. Assign Rating to Each Factor:

The management must assign rating to each factor. The rating may be in the range of 4 to 1.

- 4 for major Strength
- 3 for minor strength
- 2 for minor weakness
- 1 for manor weakness

It is to be rated that the ratings are company based whereas the weights are industry based.

d. Multiply Factor's weight by Rating

After assigning appropriate rating to each vital factor, then the management needs to multiply each factor's weight by its rating. This would enable to determine a weighted score for each factor.

e. Total weighted scores

The weighted scores of each and every vital factor must be totaled up in order to determine the total weighted score for the firm. It is to be noted that regardless of the number of factors included in the IFE matrix, the total weighted score can range from a high of 4 to a low of 1, with the average score of 2.5. If the total weighted score is below 2.5 then it indicates a weak internal position of the firm, whereas if the total weighted score is well above 2.5 it indicates a strong internal position of the firm.

Competitive Profile Matrix (CPM)

The management should develop CPM to identify firm's major competitors and their strengths and weaknesses in relation to that of the firm. The weights and total weighted scores in both CPM and IFE matrix have the same meaning. But the factors in a CPM includes both internal and external ones and ratings refers to strengths and weaknesses.

There are certain difference between IFE and CRP which are as follows:

- The critical success factors in a CPM are broader. They do not include specific or factual data and may even emphasize on internal factors.
- The critical success factors in a CPM are not grouped into opportunities and threats.

- In a CPM, the rating and total weighted scores for rival firms can be compared to the firm under study. Such comparison provides important internal strategic information.

The Following illustration provides an example of CPM:

Critical Success Factors	Sample Firm			Competitor		Competitor	
	Weight	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score
Customer Loyalty	0.40	4	1.60	3	1.20	3	1.20
Market Share	0.20	4	0.80	3	0.60	3	0.60
Profit as % of Sales	0.10	3	0.30	4	0.40	3	0.30
Product Quality	0.20	3	0.60	2	0.40	4	0.40
Distribution Network	0.10	2	0.20	1	0.00	1	0.10
	1.00	-	3.50		2.70		3.00

In the above illustration, customer loyalty is the most important factor as indicated by industry's weight of 0.40 qualities. The sample company's customer loyalty is high as shown by rating A as compared to the two competitors.

The sample company is strongest with weighted score of 3.50 followed by Competitor with a weighted score of 3.00 and then followed by the competitor with a weighted score of 2.10

Industry Analysis

A firm is a part of the industry and therefore its working is influenced by the industry in which it operates. Michael Porter advocates that a structure analysis of industry be made so that a firm would be in a better position to identify its strengths and weaknesses. The proposed a model consisting five competitive forces, threat of new entrants, rivalry among competitors, bargaining power of suppliers, bargaining power of buyers and threat of substitute products that determine the intensity of industry competition and profitability.

Threat of New Entrants

There is always a threat of new entrants in the market, especially when an industry offers profitable prospects. The new entrants may desire to make good investments in the industry so as to get a good market share. The new entrants may take away a part of the market of the existing firms or it may gain a share of the growing market. The existing firms may be affected due to the entry of new firms in the market.

The chances of new entrants entering into the industry depend upon the entry barriers and the retaliation strategies adopted by existing firms. If the entry barriers are quite high then the potential entrants may find it difficult to enter the market. So, also if the existing firms adopt aggressive retaliation strategies, then the new entrants would find it difficult to enter the market or sustain its entry.

The entry barriers may be due to several factors such as:

- Capital requirements may be very high which may prevent new entrants from making investment.
- Product differentiation by existing firm through aggressive advertising, sales promotion and other such techniques may lead to brand loyalty and customers may not be willing to accept the products of new entrants
- Access the distribution network may be domination by existing firms through effective dealer's relationships which may act as an entry barrier for new entrants as dealers may not be willing to stock and push sales of products of new firms.
- Economics of large scale production and distribution leading to lower costs for existing firms which the new entrants may not be able to match.
- Rivalry among competitors- The desire to be a market leader or to get a larger market share leads to rivalry among the competitors. The extent of rivalry among the firms affects the intensity of competition within the industry. For instance when the rivalry is less, competition level is low and vice-versa. The rivalry in the market can affect the existing firms as well as the new entrant.

There are several dimensions of rivalry among competitors, some of which are as follows:

Competitive Structure

It refers to the number of competitors, their size and diversity. Structures can range from fragmented to consolidated

- A fragmented structure takes place when there is a large number of small or medium sized firms none of which is in a dominating position in the industry. Such a situation may arise due to low entry barriers.
- A consolidated structure involves few large companies and the actions of one large firm are matched by reactions from other firms. The intensity of competition may range from low to very strong rivalry.
- Diversity among competitors implies that different firms operate with different organizational cultures with different goals and ideas to compete in the market. Greater diversity can create problems to existing firms as well as to new entrants
- Demand conditions: A high demand from the customers may lead to lesser competition in the market, as every firm may get a good amount of sales in the market. However, when there is stagnant demand, some firms may try to grab the market share from others with the help of aggressive marketing demand and declining demand creates problems for existing firms as well as new entrants.
- Exit barriers: There may be certain exit barriers which may restrict the firms to leave the industry even during the times of stagnant demand or declining demand. The exit barriers may be economic, strategic or emotional factors.
 - Economic factors may be due to high investment in plant and machinery that have no alternative usage
 - Strategic factors may be due to strategic tie-up with other collaborations or inter linkages between businesses or the firm
 - Emotional factors may be sentiments attached to the business or products
- Bargaining Power of buyers
The bargaining power of buyers either individually or collectively, also affects the position of suppliers and buyers in the industry. A high buyer bargaining power may adversely affect the existing firms as well as the newer entrants. The high buyer bargaining power may be due to
 - When the buyer places a large order
 - When several alternative sellers or suppliers are present in the market
 - When the buyer may be in a position to produce such product or components

- When the buyer charges low prices for its products and so on.

➤ Bargaining power of suppliers

The bargaining power of suppliers either individually or collectively can also affect the position of suppliers and buyers in the industry. A high supplier bargaining power can adversely affect the position of the buyers. The suppliers may increase the price or may force the buyer to accept whatever is provided. A high supplier bargaining power may be due to

- When the suppliers are few in numbers
- When the products or components supplied are unique in nature
- When the products supplied are not critical to the survival of the supplier.
- When the buyer buys in small quantity and therefore may not be important to supplier.
- When the supplier may be in a position to integrate forward and use its products for the production of end product or services etc.

➤ Threat of substitute products

The availability of close substitutes affects adversely the existing firms as well as new entrants in the market. For instance, tap water or lime juice can be substitute for soft drinks and tea can be a substitute for coffee and so on. Naturally those businesses where close substitutes are not available appear to be more attractive. The firms in such industries may charge higher prices and earn higher returns. However there are more chances of competition in such industries.

Business firm have to adopt suitable strategies taking into consideration, the five forces are explained above. For instance, firms may adopt expansion strategies in the case where the industry does not have close substitutes, provided such expansion can bring economies of large scale production and distribution and in turn higher returns to the firm.

Environmental Analysis

Introduction

The most significant development that has taken place in India after the independence is liberalisation. This led to the establishment of free market based economy. The result was that most of the companies had to operate in a competitive market, the market place turned global. This implied that companies take advantage of opportunities, not only for their growth & expansion but also for their survival,

Globalisation can transform companies if they fail to adapt the change in the environment

Environment refers to all those forces or factors that influence various decisions of the firm. A firm's environment consists of internal environment & external environment, both these environments help to determine the strength, weakness, opportunity & threat

Components of Business Environment

The various components or factors of business environment can be broadly divided into two groups

- **Internal Environment**
- **External Environment**

Internal Environment

A firm's Internal Environment consists of its Plan, Policies, Resources, Relations & other factors which affect its working. The following are some of the important factors of internal environment.

1. Management Philosophy

It greatly influences the working of a business firm, the management may adopt a traditional philosophy or a professional philosophy

Traditional approach places emphasis on family management & normally uses outdated techniques or practices, there is not much emphasis on social responsibility

Professional approach gives importance to professionalism in management & social responsibility towards various members of the society

2. Mission & Objective

the objective of the firm must be consistent with the mission statement therefore it is always advisable to frame a mission statement and then list out the various objectives.

An analysis of the internal environment will enable the firm to find out whether the objectives are in line with the mission statement & it will help the firm to know if the objectives are accomplished or not. If a firm is not in a position to accomplish its objective then it is a sign of weakness of the firm so necessary measures need to be taken to accomplish the objective

3. Plan & Policies

The plan and policies of the firm must be in line with its objectives as far as possible, a firm should frame proper plans & policies taking in to consideration the objectives and resources ,

The analysis of the internal environment will help the firm to know the appropriateness of its plans and policies

e.g a firm may be placing to much emphasis on seniority as the basis for promotion instead of merit as the basis, after the analysis the firm may reframe the personal policy of promotion in favour of merit rather than seniority

4. Human Resource

The survival and success of the firm largely depends on the quality of human resource, the knowledge, attitude, skills & social behaviour of the employee greatly affect the working of the business firm. Therefore a firms need to have not only experience & qualified workforce but also a highly dedicated & motivated team.

An analysis of the environment in respect to human resources would reveal the shortcomings and measures can be taken to correct such weakness

5. Physical Resources

It includes machines, buildings, equipment, office premises, furniture & fixture etc.

A firm need adequate and quality physical resources , appropriate resources bring job satisfaction improve quality & quantity of production, an analysis may reveal the weakness of the physical resources and corrective measures can be taken

6. Financial Resources

It relates to monetary resources, a firm needs adequate working capital as well as fixed capital, there is a need to have proper management of working & fixed

capital. The firm should obtain the funds from the right sources at lowest possible cost

An analysis of financial resources would reveal the strength or weakness if weakness is detected the firm should take adequate measures to improve the financial strength of the firm

7. Corporate image

A firm should develop, maintain & enhance a good corporate image in the minds of employees, investors, customers & others. Poor corporate image is a weakness thus a firm should undertake an analysis of its image if problem is detected corrective measures should be taken

8. Labour Management Relations

There should be excellent relations between the management and workers (unions) they should work as a team to achieve the objective of the firm. If the analysis reveals any issues immediate measures should be taken to improve labour management relations

External Environment

The external business environment also plays an important role in the survival & success of a business enterprise. There is a constant need to analyze the external environment so as to find out the opportunities & threats.

The external environment can be divided in to two groups

- **Micro Environment**
- **Macro Environment**

Micro Environment

Micro environment consists of all those factors in the Firm's immediate environment.

1. The Customers.

The Customer is one of the most important factors in the firm's external environment. The Consumers affect most of the business decisions. The Customers' Needs, Wants, Preferences and Buying behaviour must be studied in order to frame proper production and marketing strategies. Nowadays, Customers' expectations are high. They expect new and better goods. Their taste and preferences do change. They expect a Company to

provide quality goods at reasonable prices. Therefore the firm must keep in mind the customer's expectations and requirements and accordingly make market decisions.

2. The Competitors.

The Company has to identify and monitor its competitor's activities. Information must be collected about Competitors in respect of their prices, products, promotion and distribution strategies. Such information will enable the Firm to analyse the strengths and weaknesses of the competitors. The Firm has to take adequate measures to win over the confidence of the customers in its favour.

3. The Suppliers.

Suppliers supply raw materials, machines, equipments and other resources, Such purchases do have a direct impact on the Firm's marketing decisions. The Company has to keep a watch over prices and quality of materials and machines supplied by the suppliers, The Company has to maintain good relations with them to supply quality items at the right price and at the right time.

4. Channel Intermediaries.

Dealers and other Intermediaries in the chain of distribution are important factors in the Firm's immediate environment, The Firm has to select and satisfy its dealers in order to push and promote its products in the market. Nowadays dealer recommendations play an important role to convince buyers to buy products, especially in the case of consumer durables. The Firm has to monitor and motivate the Dealer to push and promote its products and also to obtain timely feedback about consumers' tastes, preferences etc.

5. Society.

The Society may also affect Company's decisions. The Society can either facilitate or make it difficult for a Company to achieve objectives. Therefore professional business firms maintain Public Relations Departments to handle complaints, grievances and suggestions from the general public. The various members of the Society include

- Financial Institutions and Banks --- affect Firm's ability to obtain funds.
- Media --- affect the goodwill of the Firm through their favourable or unfavourable reporting about the Company,
- Government --- affect the Firm's decisions through its policies, rules and regulations etc.

Macro environment.

Macro environment consists of the Societal factors that affect the working of a Firm. It relates to the demographic, economic, natural, technological, political, cultural international and legal forces. The various macro environment factors are :

1. Demographic Environment.

It studies human population with reference to its size, density, literacy rate, life expectancy, sex ratio, rural-urban divide, age composition, occupation etc. Since business deals with people, business firms have to study in detail the various demographic factors which would help them to frame proper production and marketing strategies.

2. Economic Environment.

A business firm closely interacts with its economic environment, which consists of

- Economic conditions in the market.
- Economic policies of the Government.
- Economic system of the Country.

Business firms should have a good idea about the economic conditions in the market i.e. demand and supply factors. They must have good knowledge of government policies in respect of taxation, foreign trade, money market etc.

Natural (Ecological) Environment.

It relates to natural resources like land, water, minerals etc. In doing so, two things happen

- Erosion of natural resources
- Pollution of resources like air, water etc.

Business firms should understand the above two effects and take necessary Measures to control erosion and pollution of natural resources. They may search for alternative resources such as solar energy, recycling of waste etc. They should produce environment friendly and consumer health oriented products.

3. Technological Environment.

These are constant technological developments. Business firms must constantly monitor changes in the technological environment. This is because a change in technology may have an impact on the Firm's business. As such, business firms should make efforts to adapt and adjust to new technological development so as to survive and succeed in the competitive business world.

4. Political Environment.

Business decisions are greatly influenced by the developments in the political environment. This environment consists of government agencies, political parties and pressure groups that influence and control various individuals and organisations in a society. A change in the government brings about a change in Attitude, preference, objectives and priorities. Business firms need to keep a track of all political events, anticipate changes in government policies and frame production and marketing changes accordingly.

5. Cultural Environment,

This involves knowledge, beliefs, morals, laws, customs and other such elements which are acquired by individuals and groups in a society. The Cultural norms and values are passed along from one generation to another through institutions like family, schools, colleges and religion etc. Culture is deep rooted in people. However slow and gradual changes are taking place in our cultural environment. Western cultures are influencing Indian consumers, especially the young generation. Their lifestyles, taste and preferences are changing and as such business firms should make a note of such changes so as to serve their customers with appropriate goods and services.

6. Legal Environment.

Legal environment includes Laws which define and protect the fundamental rights of individuals and organisations. Business needs legal support to

- Protect Firms by defining and preventing unfair competition,
- Protect Consumers from unfair business practices.
- Protect the interest of various members of the society such as employees, investors, suppliers, dealers etc.

Business firms must have up to date and complete knowledge of the laws governing production and distribution of goods and services.

SWOT Analysis.

SWOT Analysis is the primary step in Strategic Management.

SWOT Analysis refers to analysis of the **Strengths**, **Weaknesses**, **Opportunities** and **Threats**. The analysis of Internal environment reveals strengths and weaknesses of the organisation, and the analysis of the External environment reveals opportunities and threats for the organisation. Different authors use several terms in place of SWOT Analysis such as

- SCOT --- Strengths, Constraints, Opportunities and Threats
- Internal and External Analysis WOTS --- Weakness, Opportunities, Threats and Strengths.
- ETOP --- Environmental threats and Opportunities Profile.
- SAP Analysis --- Strategic Advantage Profile.
- ❖ **Strengths** are positive competencies of a Firm as compared to its competitors in the areas of Production / Operations, Marketing, Finance, Personnel and Management. Every Firm should make an attempt to consolidate its Strengths.
- ❖ **Weaknesses** are the negative competencies of a Firm as compared to its competitors in all the functional areas of the Organisation. Every Firm should make efforts to minimize its weaknesses.
- ❖ **Opportunities** are the favourable circumstances or the situations which the External environment offers or provides to Organisations. Every Firm should make an attempt to grab the right opportunities at the right time.
- ❖ **Threats** are the unfavourable situations which the External environment provides to the Organisation. Every Firm must make efforts to overcome or minimize the effect of threats.

SWOT Analysis provides a framework for strategic planning and decision making. A wide array of systematic decisions can be made based on the SWOT Analysis.

Advantages of SWOT Analysis.

1. Consolidate Strengths.

SWOT Analysis pinpoints the strengths of the Organisation vis-a-vis the Competitors. The Strengths may be in respect of its various functional areas such as Production, Marketing, Finance and Personnel. For instance, the employees may be highly motivated and dedicated to their work, as a result of which the Firm enjoys high labour productivity. Sound business firms will not be just satisfied in knowing their strengths, they would also make every possible effort to consolidate on their strengths, as yesterday's strengths may turn to be tomorrow's weaknesses, especially when the firm adopts a casual approach towards its strengths.

2. Minimize Weaknesses.

SWOT Analysis pinpoints not only the strengths but also the weaknesses of the Organisation vis-a-vis the Competitors. The Weaknesses may be in any or many of its functional areas such as Production, R & D, Finance, Purchase, Marketing etc. For instance the Firm may lack proper R & D facilities as a result of which the Firm may not be in a position to improve its quality and also fail to bring innovative or new products in the market, which in turn affects its market position and profits.

3. Help to Grab Opportunities.

Through SWOT Analysis, business firms continually tune in to the environmental forces that influences the demand for existing products and services and that creates opportunities for new ones. Firms need to identify correctly or to anticipate all the developments that would influence the future and to be ready for the resulting opportunities.

4. Minimizes Threats.

SWOT Analysis not only helps to grab opportunities, but it also helps to minimize threats. Foresighted management can anticipate threats from the environment such as from the technological fronts and gear up to face the threats by remaining proactive. It helps business firms to develop an early warning system to prevent threats or to develop strategies, which can change a threat to a firm's advantage. Thus a business firm may close down existing business and enter into new ones before it is too late.

5. Facilities Planning.

SWOT Analysis help the management to recognize that many products and services have life cycles and that today's winners may be losers in the course of time, and thus, it can plan for the successors – tomorrow's breadwinners. The management can plan for the resources to produce and market their successors to a receptive environment.

6. Facilitates Alternative Choices.

SWOT Analysis helps business firms to narrow the range of alternatives available, eliminate unsuitable alternatives & process most promising alternatives. It helps business firm to reduce time pressure & to concentrate on those areas or activity which are more important & result oriented

7. Helps to Innovate

A proper SWOT analysis makes the firm innovative, business firm anticipates changes in the business and the industry. A considerable amount of time & effort are devoted to R&D activities by progressive firms to face the threats/changes in the environment, such R&D efforts leads to innovation of new or better products

8. Ensure Survival & Success

SWOT analysis enables firms to survive & succeed this is because firms which undertake systematic SWOT analysis make every possible effort to overcome weakness & to consolidate on the strength, such firms also make efforts to grab opportunities & handle or diffuse threats

External Factor Evaluation (EFE) Matrix

A business organisation must evaluate external factors such as Economic, Social, Cultural & Political environment, as well as Government, Legal, Technological and the Competitive environment. An organisation must develop EFE matrix to identify opportunities & threats. The following are the steps in developing EFE matrix

➤ Listing of Key External Factors

The management must list out key external factors which would include at least 10 to 15 factors with opportunities & threats that would affect the firm & its organisation, it is advisable to list the opportunities and then list the threats. As far as possible state the factors with percentage, ratio & comparative figures

➤ **Assigning Weights to Each Factors**

After listing the vital external factors, management must assign a weight that ranges from 1.0(very important) to 0.0(not important), the weight assign to each factor indicates the relative importance of the factor to become successful in the industry. It is to be noted that regardless of whether a key factor is an opportunities or threat, factors that have greatest impact on organisational performance should be assign the highest weights, the total of all weights must be 1.0

➤ **Assigning Rating to Each Factor**

The management assigns rating to each factor. the ratings may be in the range of 4 to 1 where

- 4 for major opportunities
- 3 for minor opportunities
- 2 for minor threats
- 1 for major threats

It is to be noted the ratings are company based whereas weights are industry base

➤ **Multiply Factors Weight by Ratings**

After assigning appropriate ratings to each factor the management needs to multiply each factors weight by its rating. This would determine the weighted score for each fact

➤ **Total Weighted Score**

The weighted score of each and every factor must be totalled in order to determine the weighted score of the firm. It is to be noted that regardless of the numbers of factors in the matrix the total weighted score can range from a high of 5.0 to a low of 1.0, with the average score being 2.5, if the total weighted score is below 2.5then it indicates a weak external position of the firm, Whereas if the total weighted score is well above 2.5 it indicates a strong external position of the firm

Need for Environmental Analysis

• **Ensure Survival & Success**

The ability to deal well with the environment has enabled organisation to survive and succeed despite certain weakness. Correspondingly some of the best managed companies expanding vital efforts & resources in the direction not in tune with a changing environment do face difficulties & even disaster.

A failure to respond to changes in the environment results in the eventual failure of the organisation no matter how well it might have been operated internally

Facilities Planning

Environmental analysis helps the management to recognise that many products and services have life cycle, today's winner may be loser in the course of time hence the planning for their successors is important, the management can plan for the resources to produce and market these successors to a receptive environment

- **Help to grab Opportunities**

Business organisation continuously tunes into the environmental forces that influence the demand for existing product & service thus creating opportunities for new one, firms need to identify correctly or to anticipate all the development that would influence the future so as to be ready for the resulting opportunities

- **Minimize Threats**

A proper environmental analysis not only helps to grab opportunities but also helps to minimize threats. Farsighted management can anticipate threats from the environment such as from the technological front and gear them to face the threats by remaining proactive, it helps a firm to develop an early warning system to prevent threats or develop strategies which can turn a threat to the firms advantage

- **Build Image**

Business firms needs to be popular and earn a good name in the society, this is possible when they not only study the environment and adapt to it but also strive to make the environment hospitable to the growth of the business

- **Helps in Innovation**

Business firm anticipate A considerable amount of time & effort is devoted to R&D activities by progressive firms to face the threats/changes in the environment, such R&D efforts leads to innovation of new or better products & services

- **Ecological Balance**

Business firms are aware of depletion of resources and pollution of environment through industrial waste, therefore sound business firms looks for newer resources or alternate resources they also take adequate measures to minimize the pollution effect on the environment by recycling waste

- **Optimum Use of Resources**

A study of technological development, government policies, demographic pattern etc will help a business firm to plan its activities & allocate the limited resources in a better way. A systematic analysis of business environment helps s business firm to make optimum utilization of limited resources and meet the ever increasing and changing need of the consumer

- **Flexibility in Operation**

The environmental factors are uncontrollable & a business firms finds it difficult to influence the surrounding of its choice, a study of environment will enable a firm to adjust its operation depending upon the changing environmental situation

- **Help to face Competition**

A study of business environment enables a firm to analyze the competitors strengths and weakness, this would help the firm to incorporate the competitors strengths in its working and exploit the competitors weakness in its favour this can be done thru effective production and marketing strategies

Chapter-5 Strategy Formulation

Introduction – Strategy Provides answers to questions like how to enhance the firms long term business position, and how to make organisations mission a reality. A Strategy may be framed at difference levels.

- A Strategy is needed for the Company as a whole(Corporate strategy)
- A Strategy is needed for each business of the Company(business strategy)
- A Strategy is needed for each functional unit of the organization(functional strategy)

Strategy alternatives revolve around the issue of whether or not to pursue or change the existing business so as to improve the efficiency of the firm.

On the basis of above explanation,there are different types of strategies

- Intensification Strategy
- Integrative Strategies
- Diversification Strategies
- Restructuring/Retrenchment Strategies

Intensification Strategies –

Market penetration, market develop product development and innovation are sometime referred to as intensive strategies because they require intense efforts if a firm's competitive position with existing product is to improve.

- **Market penetration**

A market penetration strategy seeks to increase market show for present products or services in present market through greater marketing effort. This strategy is widely used alone and in combination with other strategies market penetration includes increasing the number of sales persons, increasing advertising, expenditures, offering extensive sales production items, or increasing publicity effort.

The five guidelines indicate where market penetration may be an especially effective strategy.

- When current markets are not sature with a particular product or service.
- When the usage rate of present customers could be increased significantly.
- When the market shares of major competitions have been declining while total industry sales have been increasing.
- When the correlation between dollar sales and dollar sales and marketing expenditure historically has been high.
- When increased economies of scale provide major competitive advantages.

- **Market Development**

Market development involves introducing present products or services into new geographic areas.

Eg:- Pepsi Co. Inc. is spending \$1 billion in China from 2009 to 2012 to build more plants specifically in western & interior areas of China. Also in China, Pepsi Co is developing products tastored to Chineo consumers, building a large sales force and expanding research & development efforts China is Pepsi's second largest beverage market by volume, behind the united states Pepsi owns Lay's potato chips & in China sells the chips with Beijing duck flavor Pepsi has 41% share of patato chips market in China. Pepsi's new market at rival coke, which dominates pepsi in the carbonated soft drink sector in China. Coke has a 51.9% share of the market to Pepsi's 32.6%.

Following Six guidelines indicate when market development maybe an especially effective strategy.

- When new channels of distribution are available that are reliable, inexpensive and of good quality.
- When an organization is very successful at what it does.
- When new untapped or unsaturated market exist.
- When an organization has the needed capital & human resources to manage expanded operations.
- When an organization has excess production capacity.
- When an organisation's basic industry is rapidly becoming global in scope.

- **Product Development**

Product development is a strategy that seeks increased sales by improving or modifying Present products or services. Product development usually entails large research and development expenditures. Google's new chrome OS operation system illuminates years of money's spent on product development. Google expects chrome OS to overtake Microsoft windows by 2015.

These five guidelines indicate when product development maybe an especially effective strategy to pursue.

- When an organization has successful products that are in the maturity stage of the product life cycle the idea here is to attract satisfied customers to try new (improved) product as a result of their positive experience with the organization's present products or services.

- When an organization competes in an industry that is characterized by rapid technological developments.
- When major competitors offer better quality product at comparable prices.
- When an organization competes in a high growth industry.
- When an organization has especially strong research & development capabilities.

Integration Strategies –

Integration means combining activities related to the present activity of a firm such a combination may be done on the basis of the value chain. A value chain is set of interlinked activities performed by an organization, right from procurement of basic raw materials low to the marketing of finished products to the ultimate consumers so a firm may move up or down the value chain to concerntrate more comprehensively on the consumers groups and needs that it is already serving.

Integration is an expansion strategy as it involves widening of business definition of firm. It is also a subset of diversification strategy as it involves undertaking certain activities or business which the firm was nor dealing earlier.

The integration strategy can be of two types

- Vertical integration – background/forward integration.
- Horizontal Integration
- **Vertical Integration**

When an organization starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity under taken with the purpose of either supplying inputs (suchas raw materials) or serving as a customer for output (such as marketing of firms product) is vertical integration vertical could be of two types backward and forward integration. Backward integration means retreating to the source of raw material forward integration moves the organization ahead, taking it nearer the ultimate customer.

Generally, when firm integrate vertically they do so in a complete manner i.e. they move backward or forward decisively, resulting in a full integration.

Despite the hype about outsourcing and vertical integration, they are strategies having limitation.

- Increase costs of co-ordinating integrationover multiple stage of value chain.
- Technological obsolescene due to relying on outside manufacturers.
- Increased mobility & exit barriers.

- Tight coupling to poor performing business units owing to dependence.
- Lack of information & feedback from suppliers & distributors.

- **Horizontal integration**

When an organization take up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration for eg Luggage company taking over its rival luggage company is horizontal integration. A horizontal integration strategy results in a bigger size with concomitant benefit of a stronger competitive position in the industry. It may be frequently add with a view to expand geographically buying a competitors business to increase the market share or to benefit from economies of scale. Yet it does not take the organization beyond its existing business definition. It still remains in the same industry, serving the same markets & customers through it existing products, by the means of the same technologies Horizontal integration is quite similar to merge & acquisition since these are one of the means for integrating horizontally.

Eg:- Takeovers of smaller banks in order to consolidate & attain a bigger size taken over of sangli bank by ICICI bank and Unite Western bank by IDBI bank. There are many obvious benefit of adopting horizontal integration strategy are-

Economics of Scale –

Horizontal integration in variety leads to a lower cost structure by spreading over the fixed cost of operations over a large base of product, there by reducing the per unit cost resulting in economies of scale economics of scope.

When horizontal integration result in two or more organization using the same resources base to produce a variety of product in the product range offered, it results in economics of scope. This is due to betterutilization of assets.

Increase Market Power –

Bigger size of operations enable the organization adopting horizontal ration to exercise increased market over suppliers and customers.

Reduction in industry rivalary

After horizontal integration this are fewer cpmpetition left in the industry there by reducing the intensity of industry rivary.

Diversification Strategies –

Diversification is one type of internal growth strategy. It involves entry into new products and in new diversification can be defined as entry of a firm into new product or product lines, new services or new markets, involving substantially different skills technology and knowledge.

When an established firm introduce a new product which has little or no affinity with its present product line and which may be meant for a new class of customers different from the firm's existing customers groups, the process is known as conglomerate diversification.

Eg:- book publisher going into carpet manufacturing

There are two types of diversification

Concentric or related

Conglomerate or Unrelated

Concentric or related Diversification

When an organization takes up an activity in such a manner that it is related to existing business definition of one or more of a firms business either in terms of customer groups, customers functions or alternative technologies, it is concentric diversification, The relatedness is to be seen in terms of three dimation. If the new business is in any way related to the original business in term of the customer groups served, customers function performed or alternative technologies employed, then it is related or concentric diversification .

Concentric Diversification of three types,

- Marketing – related concentric diversification

A similar type of product is offered with the help of unrelated technology e.g :- a company in the sewing machine business diversified into kitchenware and household appliances, which are sold a chain of retail stores to family consumers. The market relatedness here is in terms of the common distribution channel for sewing machines, kitchenward and household appliances.

- Technology – related concentric diversification

A new type of product is offered with the help of related technology eg – a leasing firm offering hire- purchase service to institutional customers also start consumer financing for purchase of durables to individual customers. The technology relatedness is in terms of the procedure of the financing service to institutional and individual customers.

- Marketing – and technology related Concentric diversification

A similar type of product or service is provided with the help of a related technology eg – a synthetic water tank manufacturer makes other synthetic items such as pre – fabricated doors & windows for residential & commercial establishments, sold through its hardware supplier network. The market relatedness here is in terms of the common distribution channel for water tanks & pre-fabricated doors and windows, while the technology relatedness is in the common technology of plastic processing and engineering required for manufacturing these products.

Conglomerate or Unrelated –

When an organization adopts a strategy which require taking up those activities which are unrelated to the existing business definition of any of its business, either in terms of their respective customer groups, customers functions or alternative technologies, it is conglomerate diversification offering a new product manufactured through an unfamiliar technology for a new set of customers involves considerable risk. These has to be sound rationale for taking the risk of unrelated diversification. In order to understand the rationale for unrelated diversification, we need to understand the condition under which such diversification can be undertaken often strategies would embark upon diversification when their organization has excess capital. It can be only be re invested in the present business if there are chances of increasing the worth of the organization and enhancing the shareholder's value. Thus, unrelated diversification can only be justified when the surplus cash reinvested into new ventures can generate more value for the shareholders, otherwise it is provident to return it to them.

There are several examples of Indian companies in different sectors which have adopted a path of growth & expansion through conglomerate diversification. Almost all private sector business groups, whether family owned or professional are diversified entities. The Aditya Birla Group is in a variety of unrelated business such as aluminium, business process outsourcing carbon black, cement, chemicals, copper fertilizers, gas, insulators, mining, retail, software, sponge iron, telecom and textiles.

Public sector organizations even of a very large size, normally would not go beyond their core businesses. When they do so through vertical intergration as it happens in the case of oil and gas industry. But even here, sometime s one may come across a company like Indian oil that has ventured into relating which is unrelated to its mainline business of oil.

Retrenchment/ restructuring Strategies

This strategy involves dropping some of the activities in a particular business or totally getting out of some of the business of the firm. This strategy is more suitable during recession and other economic crises, so as to concentrate on important activities and business.

A firm adopting retreat strategy may drop some of its functions, products or markets. There is a need for redefining the priorities of business. The firm may sell some of its brands/ products or may simply withdrawn from the market some products/ brands.

The retrenchment strategy may be adopted in different forms/ types which are –

- Turnaround
- Divestment
- Liquidation
- Merger
- Acquisition (Take over)
- Joint Venture

Turnaround Strategy

Turnaround strategy can be referred as converting a loss making unit into a profitable one. According to Dictionary of Marketing “Turnaround means making the company profitable again”

Turnaround is possible only where the company restructure its business operation. Turnaround strategy is a broader strategy and it can include diverstment or get out of certain business and sells off units or divisions.

Normally, the turnaround strategy aims at improvement in declining sale or market share and profit. The declining sales or market share may be due to several factors both internal and external to the firm. Some of these factors may include high cost of materials, lower price utilization for the goods and services increased competition, recession managerial inefficiency, etc.

Need for Turnaround Strategy –

A firm may opt for turnaround strategy in the following situations

- Liquidity problem – A company may be facing liquidity problem, i.e shortage of cash or liquid assets. This may be due to less inflow and arising outflow of funds. The liquidity problem affects the working capital need of the firm.
- Fall in market share/sales – A firm may face the problem of declining market share, which may be due to heavy competition, or ineffective marketing and distribution of goods and services.
- Decline in Profits – A firm may witness decline in profits over a period of time and may start incurring losses. The losses may be due to increase in costs, and lower revenues.
- Underutilization of plant capacity – If the production capacity of a plant is underutilized. This can be done by merging the firm with another company, which is in a position to make optimum use of installed capacity.
- High inventory – there are cases where the inventory piles up continuously which indicates that the sales are decline and therefore, turnaround is required through restructuring, otherwise they may have to close down.

Managing Turnaround

There are three ways in which turnaround can be managed

- Company Executives – The turnaround can be managed by existing company executive including the chief executive officer. The management may take the help of an external expert or consultant brainstorming sessions are held, every member of turnaround team is expected to give suggestions or ideas to reduce losses and improve profitability. The ideas are then evaluated, and finally a turnaround action plan is prepared and implemented.
- External Consultant – In this case, an external consultant is appointed to take the complete charge of managing the turnaround. The existing executives are asked to hand over the affairs of the company to the consultant. The manager team is kept aside till the turnaround plan is completed. The turnaround consultant is appointed as per the instructions of the firm or financial institutions. The turnaround consultant continues to manage the firm till the turnaround plan is completely implemented. The consultant is given the complete work of.
 - Identifying the causes of declining trends in sales, market share and profit.
 - Preparing the action plan for turnaround.
 - Implementing the action plan successfully.
- New Chief Executive – In this method, the chief executive of the sick company is either asked to resign or replaced by a new one. The top management team may

also be changed . this practice is normally followed in the case of American firms. The Chief executive with the help of a turnaround consultant prepare an action plan for turnaround. The new chief executive may adopt either of the two approaches.

- Surgical Approach
- Non- Surgical Approach

Divestment Strategy

This strategy involves dropping some of the product, markets or functions. The dropping of activities or business can be attained rather through sale or liquidation.

There are several reasons or objectives for adopting divestment strategy such as

- Necessity for withdrawal of obsolete products – Obsolete of products, which no longer brings good returns to the firm, and therefore, they can be divested. Therefore the firm may get rid of obsolete products and concentrate on those products, which has good market share.
- Problem of Mismatch – A business that has been acquired by the firm may prove to be a mismatch. With the existing business & therefore, such business may be difficult to integrate with the existing business of the company. Therefore, the firm may take initiative to get ride of the newly acquired business, as quickly as possible so as to avoid future problems.
- Problem of competition – Sometimes, a firm may find it difficult to compete in the market due to heavy competition. There may be cut-throath competition which may compete a firm to withdraw certain products from the market, or sell the units producing such products, so that the firm can concentrate on its core products.
- Negative cash flows – A firm may get negative cash flows from a particular business. The returns from particular business may be low as compared to the expenditure incurred. This creates financial problems for the entire organization, and therefore, it would be advisable to divest that business.
- Technology Up-gradation – Technology 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. Therefore, the company may divest a part of the business so as to generate funds for technology upgradation, which in turn would enable the firm to
 - Improve quality & quantity of production
 - Reduce cost
- Problem of managing certain business – A firm may find it difficult to manage growing business, and therefore, it may divest non-core business to concentrate on core business.

- Alternative for Investment – A firm may find a better alternative to invest, and as it may divest a part of business in order to take advantage of the alternative business area. For instance the firm may invest in new product lines which may have a good demand in the market.
- Debt Servicing – Growing financial burden such as debt servicing may force the company to divest a part of business so as to repay loans. It would be advisable to repay at the earliest to reduce interest burden. Therefore, A firm may sell a part of the business, especially, the poor performing ones.
- Returns to shareholders – Some firm may divest increase shareholders returns. They may divest certain units or business which are underperforming. At time, the non-core businesses are divested. The divestment proceeds are passed on to the shareholders in form of hefty dividends. Approaches to divestment –

A firm may choose to divest into ways.

- a) A particular business can be divested into separate independent company.
- b) A particular business maybe sold outright to another firm.

Liquidation –

Liquidation is the extreme case of divestment strategy. In this case, the organization take the decision to sell its entire business and funds so realized can be invested in some other business. Liquidation is common in case of small businesses, where the owners sell their entire business units and then invest in some other area.

The decision to close down or liquidate the firm is taken, when the firm is continuously suffering from losses, and all efforts to make a profitable again have failed,

Reasons for Liquidation.

- When a firm is continuously suffering losses and all efforts to make it profitable again have failed.
- When a firm has accumulated losses and some other firms offer prices to take benefit of tax advantages, then it senses to sell the unit.
- Some firm may offer a better price firm, as they may like to consolidate their market position with the competitors, and therefore, a firm, which is offered a better deal, maybe offered to divert.
- When a firm finds it difficult to manage the present business due to declining sales and low or no profits, then it may liquidate its business.
- When a business is in a peak form but its future is not certain, a firm may decide to divest its business and obtain a good price.

Legal aspects of liquidation.

A company can be wound up under the provisions of the Indian Companies Act, 1956 Section A25 of the Act provision three kinds of winding up

- Compulsory winding up under the order of the court.
- Voluntary winding up
 - a) At the instance of members
 - b) At the instance of creditors
- Voluntary winding up under the supervision of the court.

Merger Strategy –

A merger refers to fusion or combination of two or more companies into one company survives and the other company ceases to exist. The merger takes place for a consideration, which the acquiring company may pay either in cash or by offering its shares. For eg, The merger of Reliance Petroleum with Reliance Industries, where by the shareholder of Reliance petroleum were offered one share of Reliance Industries for every 11 share held by them in Reliance petroleum.

Reasons/Advantages

- 1) Operational efficiencies – It enables the pooling of resources and streamlining of operations, thereby, resulting in improved operational efficiencies.
- 2) Size and synergy – Size and synergy are the two main considerations for merger. The merged entity gains the advantages of size and synergy of the constituent businesses. Eg- There can be marketing synergy, which may take place as the merged entity can use the same distribution channels, advertising and sales forces.
- 3) Economics of scale – The merged entity enjoys economies of large scale production and distribution of goods and services. Mergers, therefore, improve the overall competitiveness. Due to the benefits of economies of scale, the firm is in a position to generate higher profits than the aggregate profits of the pre-merged entities.
- 4) Help to face competition – Merger helps to face competition in the market due to economies of large scale production and distribution, the firm is in a position to offer not only better quality of goods and services but also at better prices, and therefore, it can effectively face competition in the market.
- 5) Financial related advantages – Merger results in integration of assets and other resources and provides stability of cash flows and serves as leverage for raising more funds from the market, both from investors, as well as from banks and financial institutions.
- 6) Revival of Sick Units – Merger can bring about a revival of sick units. The sick units can be merged with a strong company and therefore, the problem of industrial sickness can be avoided in case of certain units.
- 7) Faster growth rate- Merger can provide opportunities for a faster growth rate than can be achieved through internal sources. This is because, merger offers advantages in several areas such as marketing, production, finance, research and development and so on. The operational advantages of various functional areas can bring a faster growth rate to the merged entity.

- 8) Tax advantages- Merger can be used as effective source of tax planning especially, when one of the merged entities was having accumulated losses. In such a case, it can result in several tax savings for the merged entity.

Takeover Strategy –

A takeover involves the acquisition or whole of the equity capital of another firm, which enables the acquire to exercise effective control over the affairs of the taken over firms. With the help of takeover, a firm can expand its capacity or competence in the desired area of operation.

Takeover can help a firm to a new business without the disadvantage of gestation or setup time. Foreign MNC's may takeover existing units in the overseas market so as to facilitate easy entry in the overseas market.

Takeovers Strategy may bring several advantages.

- 1) It can bring benefits of size and synergy.
- 2) There can be operational efficiencies.
- 3) The taken over firm can enjoy tax benefits, if the taken over firm had accumulated losses.
- 4) There can be faster growth rate.
- 5) It can generate economics of large scale production and distribution.
- 6) It can help to face competition in the market.

(Refer for explanation of advantages under merger strategy)

Joint Venture –

Joint Venture is a type of partnership where by two or more firm together and establish a new business unit to achieve certain well defined goals. Joint venture involves sharing of ownership, management and control of a separate business unit established for mutual benefit by two or more companies. In general , Joint venture are very common and popular in the international trade and are a best way to enter into foreign collaboration.

The following are the main features of Joint ventures.

- 1) Joint Ventures is an arrangement between the parties for a specific purpose like production, marketing, transfer or sharing of technology etc.
- 2) The participating firms contribute money, management and technical know how plant & machinery and other facilities for the accomplishment of the agreed objectives.
- 3) The ownership, management and control in the new business unit are shared by the participating firms in the agreed proportion.
- 4) Joint venture agreement can be entered into by

- a) Two more local companies.
- b) A local company and a government company.
- c) A local company and a foreign company.

Advantages of Joint Venture –

- 1) Huge capital – Joint venture are suit for large projects with huge capital requirements and of long gestation jointly the firm can collect funds funds from a large number of investors and creditors.
- 2) Synergic affect – Parties to the joint venture pool together technical market and managerial skills. Joint venture brings in synergic effect. This is due to the combined effort of the part to the joint venture .
- 3) Better use of resources – Joint venture optimum use of available resources. All the resources human, financial & physical resources are put to this possible use.
- 4) Goodwill and reputation – Joint venture between local and foreign company is useful to improve the image of local firm in the domestic market. The local firm can also earn good reputation in the overseas market due to the tie-up with a reputed foreign firm.
- 5) Risk sharing – Joint venture is a method of sharing high business risk among parties to the joint venture. This enables the joint venture to undertake large project.
- 6) Expansion and diversification – Joint venture enables the business entity to expand and diversify its business operations. This is because of combined strength of parties involved in Joint venture.

Limitations of Joint Ventures –

- 1) Delay in decisions – Joint ventures involve joint decision making by patterns since many people are involved in decision making its slows down the decision making, resulting into delayed actions.
- 2) Conflicts – Joint ventures are prone to conflicts among parties concerned. This happens when the interest and objectives of parties are not similar or when one of the parties is aggrieved or dominated by other partner.
- 3) Uncertainty – The working of Joint Venture depend upon many social, economical, political and environmental factors. A change in business environment has immediate impact on the life life cycle of joint venture.
- 4) Short life – Joint venture is sometime of two independent partness, therefore to exist once the purpose is served.
- 5) Transfer of outdated technology – The party from developed nation may transfer outdated technology to the Joint venture in the developing countries. This may not bring much benefit to the developing country.
- 6) Unfair Terms and Conditions – The party from the developed nation may impose term and conditions on the party of the host country, which may not fair and

justified for instance, the party from the developed country may demand a higher profits and/or royal for use of patents, trade marks, etc.

- 7) Drain on foreign exchange – A Joint venture involving a foreing party may drain foreign exchange out of the country due to the payment of royalty and dividends.

NATURE OF STRATEGIC EVALUATION AND CONTROL

Strategic evaluation and control is that phase of strategic management which ensure whether or not a particular strategy contributes to the objectives of the enterprise. With the help of strategic evaluation, management measure the results of strategic action, and strategic control helps tp take corrective action, if deviations take place. However, in reality, the term strategic control is a broader term, which includes strategic evaluation.

William Glueck and **Lawrence Jauch** define strategic evaluation follows:

“Evaluation of strategy is that phase of the strategic management process in which the top managers determine whether their starategic choice is implemented is meeting the objectives of the enterprise.”

Nature of Strategic Evaluation:

The process of strategic management requires that the managers set their objectives of the organisation and then formulate the strategies to accomplish them. After formulating the strategies, the managers make arrangement to implement the strategies in order to accomplish the objectives. On implementing the strategies or even during the implementation, the managers need to evaluate the performance of the strategies so as to find out whether or not the objectives are accomplished. If deviations or gaps are noticed between the actual performance and the standard, then necessary corrective measures need to be taken.

The following are the characteristics of strategic evaluation and control:

1. **Goal oriented:** Strategic evaluation and control is goal oriented. Corrective measures are undertaken to achieve pre-determined goal or objectives. The emphasis is place on achievement of goals rather than more avtivities.
2. **Involves measurement:** Strategic evaluation and control involves monitoring of actual performance and then comparing it with planned targets. Necessary corrective measures are taken to correct deviations id any.
3. **Continuous process:** Strategic evaluation and control is a continuous process. There is a constant need to monitor the performance in the light of plans. As long as the organization exists, there is a need for strategic management process to accomplish objectives, and as long as there is strategic management process, there is need for strategic evaluation and control. In other words, strategic management process is meaningless, if it does not involve strategic evaluation and control.

4. **Effective use of resources:** Strategic evaluation and control helps to make optimum use of resources. Wasteful expenditure, and wastages of materials and other resources is avoided or minimized due to effective evaluation and control.
5. **Helps to recognize change:** Evaluation and control helps managers to recognize the need for a change. At times, managers may find it difficult to accomplish the targets, in spite of corrective measures. This may be because; the managers are concentrating their efforts on wrong strategic areas, which are not suitable to achieve the desired objectives. Therefore, the evaluation and control process may enable the managers to find out the effectiveness of the strategic areas. For instance, the organization may be concentrating on those markets or products, which are not suitable to its line of business.
6. **Facilitates direction:** Strategic evaluation and control facilitates direction of action. Efforts are directed at purposeful activities. Unproductive activities are avoided, thereby, saving valuable efforts and resources of the organization.

IMPORTANCE OF STRATEGIC EVALUATION AND CONTROL

The purpose of strategic evaluation and control is to ensure that the objectives are accomplished. For this purpose, strategies are formulated, implemented, and then evaluated, and if necessary control measures are taken. The need and importance of strategic evaluation and control is briefly situated as follows:

1. **Facilitates coordination:** Strategic evaluation and control facilitates coordination among the various departments of the organization. Whenever, there are any deviations, the activities of the concerned departments are coordinated so as to take collective and corrective measures. The collective efforts on the part of concerned departments enable to correct the deviations and to accomplish the objectives.
2. **Facilitates optimum use of resources:** Evaluation and control enables optimum use of resources – physical, financial and human resources. The resources are properly allocated and utilized, which in turn generates higher productivity and efficiency system should be suitable to the needs of organization.
3. **Prompt:** An effective control system should promptly help recognize deviations and to take quick and corrective steps.
4. **Flexible:** the control system must be flexible. The system must be workable even during the changing conditions when the plans are changed or modified.
5. **Forward looking:** A good control system should help the managers to plan their activities for the future.
6. **Simplicity:** The control system must be simple. Those who are going to use it or who would be affected by it must understand it clearly and correctly.

7. **Economical:** the control system should be economical to administration. It should bring more returns than the money spent on it.
8. **Objectivity:** It means that the system should be definite and verifiable. Performance standards must be objective and specific. They may qualitative or quantitative.
9. **Suggestive:** the control system must be suggestive. It should indicate where the problem is, who is at a fault and what should be done to correct the faults, if any.
10. **Motivating:** a good control system should encourage rather than discourage the employees. It should be designed to prevent mistake rather than to punish individuals.
11. **Critical Point Control:** it may neither desirable nor economical to control each and every activity. Effective control requires special attention to those factors critical to evaluating performance against plans. Therefore, the organization should be selective in control matters. A good control system should focus on the critical factors areas, where control is vital to ensure survival and success of the organization.
12. **Control by Exception:** The control system should enable managers to focus their attention on exceptional or significant deviations. The senior managers should control on major or exceptional deviations, and the routine control matters should be left to the junior managers to handle. It is believed that more a manager concentrates his control efforts on exceptional deviations; the more efficient would be the results of the control.
The principle of critical point control is often confused with the principle of exception. Both these principles are closely related. However, critical point control is concerned with recognizing the points or factors where control focus is required, while the exception principle is concerned with the size of deviations at these points.

PROCESS OF EVALUATION AND CONTROL

The process of evaluation and control consists of several steps, which are briefly described as follows:

1. **Setting of standards:** The strategists should set targets or standards of performance in all the key result areas of the organization. The key result areas are the important areas or departments of the organization such as production, marketing, finance, quality control, inventory control, etc.
Specific standards or targets are set for a definite period. The period can be further divided into sub-periods. For instance, if the performance period is of one-year duration, it can be further divided into quarterly or three-month period, with targets set for each sub-period. For instance, the marketing department may set

the target to sell 10,000 units of a product during the year 2003-04. The target of 10,000 units can further be divided into three-month period.

2. **Implementation of targets:** Activities are directed to achieve the planned targets. Necessary policies and programmes are developed to achieve the targets. The manager makes arrangement of required resources. All the activities are directed towards the accomplishment of the planned targets. Undesirable activities are avoided.
3. **Measurement of performance:** Performance of individuals/departments is measured periodically. Necessary reports or tables are prepared to indicate the performance of individuals. The reports may be prepared section wise, activity wise, and period wise.
4. **Comparing performance with plans:** The actual performance is then compared against the planned targets. By comparing, the manager can find out the shortfalls or deviations. For instance, the actual performance of sale is 9,000 units of the product in the year 2003 – 2004 against the target of 10,000 units, then the shortfall is 1000 units.
5. **Finding the causes of deviations:** The manager may study the cause of deviations, especially, when there are negative deviations. For instance, there can be shortfall in sales. This may be due to any of the following reasons:
 - a) Poor advertising campaign.
 - b) Poor dealer relationships.
 - c) Problems with the quality of product.
 - d) Problem with the pricing of the product.
 - e) Problem with the distribution of the product.
 - f) Better marketing strategies of the competitors, etc.
6. **Listing out corrective measures:** The next step would be to list out the various corrective measures to correct the deviations. For instance to correct shortfall in sales, the corrective measures can be such as :
 - a) Corrective Measure I ® to increase advertising.
 - b) Corrective Measure II ® to improve quality.
 - c) Corrective Measure III ® to increase dealers incentives, etc.
7. **Selecting and implementing corrective measures:** Once, a list of corrective measures is prepared, the manager makes a cost-benefit analysis of the corrective measures. He then selects the best feasible corrective steps. The measures are then implemented.
8. **Review or follow-up:** The manager needs to review the corrective measures to find out whether the corrective measures taken are in a position to correct the deviations. If necessary, additional corrective measures may be taken, or the targets may be set again.

STRATEGIC CONTROL AND OPERATIONAL CONTROL

Strategic control is the process, which takes into account the changing assumptions of both internal and external factors affecting the organization, on which a strategy is based, continuously evaluating the strategy as it is being implemented, and taking corrective measures to adjust strategy according to changing situation. Strategic control attempts to provide answers to the following questions:

1. Are right assumptions made at time of strategy formulation?
2. Is the strategy being implemented properly?
3. Is there any need to change the strategy?
4. If changes are to be made in the strategy, then to what extent?

Operational control is the process of ensuring that specific tasks are carried out effectively and efficiently. The operational control aims at evaluating the performance of the organization, and that is why it is used so extensively in organisations.

The operational control attempts to answer the following questions:

1. Is the performance of the organization as per the standards?
2. Are the resources of the organization being used properly?
3. What are the measures required to ensure proper use of resources so as to accomplish organizational objectives?

Most of the control systems in organisations are operational in nature. Some of the examples of operational are as follows:

- Budgetary control – ensuring performance as per budgetary targets.
- Quality control – ensuring product quality as per standards laid down.
- Inventory control – maintaining inventory at desired limits.
- Production control – maintaining production as per planned targets.
- Cost control – maintaining expenses within set limits.

The main features of operational controls are as follows:

- Operational controls are programmed or decided in advance. They are self-regulatory in nature. Therefore, limited managerial discretion is required for their operation.
- The operational controls are impersonal in nature. Techniques, tool, procedures are used as means of control.