UNIT I

Introduction: meaning nature, scope, and importance of strategy; Model of strategic management, Strategic Decision-Making Process. Corporate Governance: Composition of the board, Role and Responsibilities of the board of directors, Trends in corporate governance, Corporate Social Responsibility.

MEANING OF STRATEGY

Strategy word is derived from Greek strategia, meaning “generalship.” Actually this word was used in military, here strategy refers to the management of troops. Once the enemy has been engaged, attention shifts to schemes and tactics. From here gradually the concept of strategy and the word strategy itself pave its way to the business and management world.

Strategy is imbedded with so many things—it is perspective, competition, innovation, position, plan, and pattern. Strategy is the link between guidelines or goals of higher management on the one hand and diplomacy or solid actions on the other. Strategy and tactics together overlap the gap between ends and means. In short, strategy is a term that refers to a intricate network of opinions, thoughts, knowledge, aim, skill-set, memories, perceptions, and expectations that provides general guidance for specific actions in quest of particular ends.

STRATEGIC MANAGEMENT: - Strategic management involves the analysis of internal capabilities and external environment of a firm in order to efficiently and effectively uses resources to meet organizational objectives. Strategic management is the process of systematically analyzing various opportunities and threats organizational strengths and weakness, formulating, and arriving at strategic choices through critical evaluation of alternatives and implementing them to meet the set objectives of the organization.

DEFINITIONS OF STRATEGIC MANAGEMENT:

Systematic analysis of the factors associated with customers and competitors (the external environment) and the organization itself (the internal environment) to provide the basis for re-thinking the current management practices. Its objective is to achieve better alignment of corporate policies and strategic priorities.

According to L. lord L. Byars, "Strategic management is concerned with making decisions about organization future direction and implementing those decisions."

According to Hofer, "strategic management is the process which deals with the fundamental organizational renewal and growth with the development of strategies, structures, and systems necessary to achieve such renewal and growth, and with the organizational systems needed to effectively manage the strategy formulation and implementation processes."

According to Arthur Sharplin, "Strategic management is the formulation and implementation of plans and carrying out of activities relating to the matters which are of vital, pervasive or continuing importance to the total organization."

Characteristics of Strategy

1) **Strategy is a systematic phenomenon:** Strategy involves a series of action plans, no way contradictory to each other because a common theme runs across them. It is not merely a good idea; it is making that idea happen too. Strategy is a unified, comprehensive and integrated plan of action.

2) **By its nature, it is multidisciplinary:** Strategy involves marketing, finance, human resource and operations to formulate and implement strategy. Strategy takes a holistic view. It is multidisciplinary as a new strategy influences all the functional areas, i.e., marketing, financial, human resource, and operations.

3) **By its influence, it is multidimensional:** Strategy not only tells about vision and objectives, but also the way to achieve them. So, it implies that the organization should possess the resources and competencies appropriate for implementation of strategy as well as strong performance culture, with clear accountability and incentives linked to performance.

4) **By its structure, it is hierarchical:** On the top come corporate strategies, then come business unit strategies, and finally functional strategies. Corporate strategies are decided by the top management, Business Unit level strategies by the top people of individual strategic business units, and the functional strategies are decided by the functional heads.

5) **By relationship, it is dynamic:** Strategy is to create a fit between the environment and the organization's actions. As environment itself is subject to fast change, the strategy too has to be dynamic to move in accordance to the environment. Success of Microsoft appears to be very simple as far as software for personal computers are concerned, but Microsoft strategy required continuous decisions in a turbulent and dynamic environment to remain leader.

6) **Strategy requires searching for new sources of advantage:** To achieve sustainable long term competitive advantage the firm must invent new rules and new games to become unique and create wealth. Simply copying the leader means value is destroyed for all the firms. Thus to look different, strategy differentiation is a must.

7) **Strategy is almost always the result of some type of collective decision-making process:** The vision, mission, objectives, and corporate strategies are determined by top management. Business Unit strategies are decided by heads of business units and functional plans by functional heads. But the top management consent is a must. It is the senior management which resolves paradoxes between the conflicting objectives, existing functions and future activities, and the resources allocation.

Requisites of an Effective strategy

The major assumptions relating to an effective strategy are as follows:

1) Strategy will be suitable only if it is environmental friendly and uses the least of nonrenewable sources. Any strategy based on this assumption is more likely to succeed.

2) With the globalization of business, organization needs to bring out more varieties of products and services to suit customer needs. This requires a flexible and cost effective manufacturing, distribution and sourcing strategies. Therefore, a sustainable strategy has to be flexible and cost effective.

3) With the lowering of technology barriers, product life cycles are crashing. Therefore, being responsive to the global customers will help a firm outperform others. Therefore, strategies have to be necessarily more responsive with the least time lag.

4) In the dynamic global business situation, current organisation structures can't offer the necessary flexibility & responsiveness to counter modern challenges. Therefore, strategies need to be evolved wherein radically different organization structures, preferably smaller ones need to be created.

5) Strategies based on products and services of international standards and open architecture are more likely to succeed since in the coming years, the competition will not be between the products but between the standards. Examples are DOS vs. UNIX operating system of computers. Standards are constantly redefining the industry position and hence the right assumption will lead to a more sustainable strategy.

Strategic Management Framework

The basic framework of strategic management involves five stages:

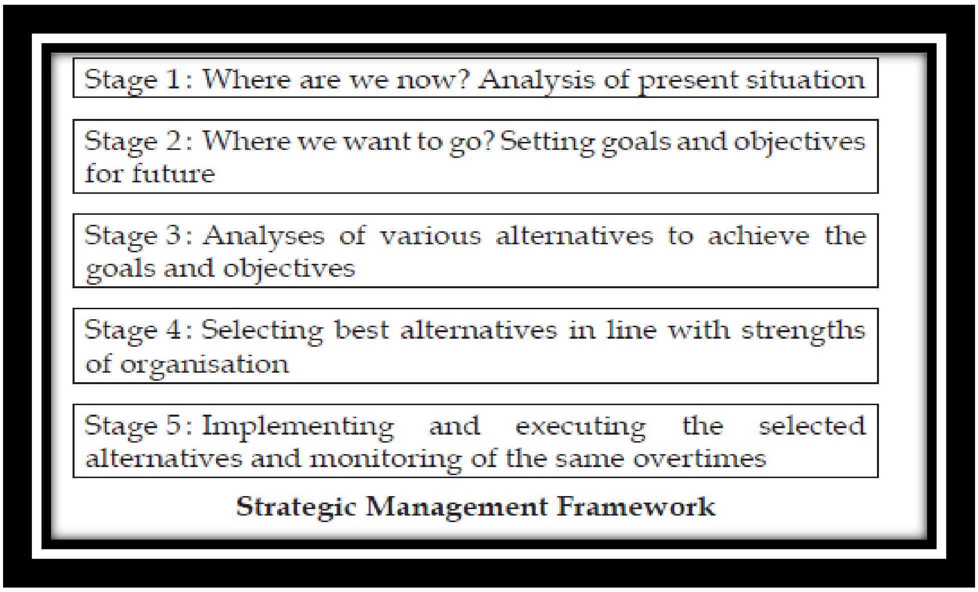
Stage 1: In this stage, organization analyzes about their present situation in terms of theirs trengths, Weaknesses, Opportunities and Threats.

Stage 2: In this stage, organizations setup their missions, goals and objectives by analyzing where they want to go in future.

Stage 3: In this stage organization analyses various strategic alternatives to achieve their goals and objectives. The alternatives are analyzed in terms of what business portfolio/product mix to adopt, expansion, merger, acquisition and divestment options etc are analyzed to achieve the goals.

Stage 4: In this organizations select the best suitable alternatives in line with their SWOT analysis.

Stage 5: This is implementation stage in which organization implement and execute the selected alternatives to achieve their strategic goals and objectives.



Strategic Management Framework

Importance of Strategic Management:

- Discover organization strengths and weaknesses
- Identify the available opportunities and possible threats
- Discover the objectives and goals in line with organizations strengths and available opportunities
- Implement changes to overcome weaknesses and manage the threats.
- Provide vision/mission or direction to future of organizations
- Build a dynamic and strong organization
- Help to achieve growing and stable organization

Strategic Management Process:

Introduction: - Strategic management is a process or series of steps. The basic steps of the strategic management process are (presented in figure)

a) identifying or defining business mission, purpose and objectives,
b) environmental (including global) analysis to identity present and future opportunities and threats,
c) organizational analysis to assess the strengths and weaknesses of the firm,
d) developing alternative strategies and choosing the best strategy,
e) strategy implementation, and
f) Strategic evaluation and control.

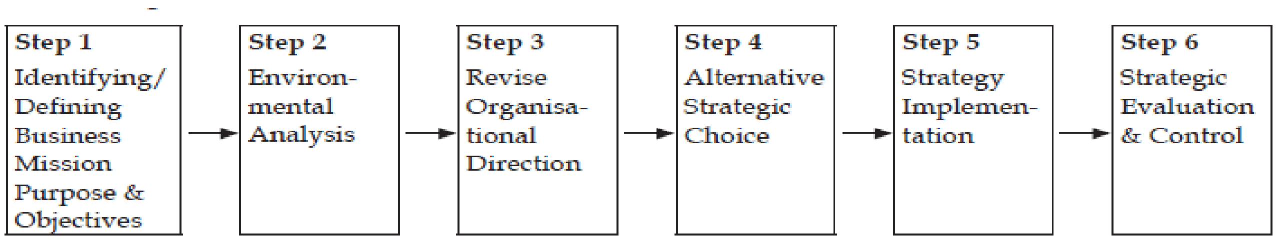


Fig. Major Steps in Strategic Management Process

Steps of Strategic Management Process:

Step 1: Identifying Defining Business Mission, Purpose and Objectives: Identifying or defining an organization's existing mission, purpose and objectives is the logical starting point as they lay foundation for strategic management. Every organization has a mission, purpose and objectives, even if these elements are not consciously designed, written & communicated. These elements relate the organization with the society and states that it has to achieve for itself and to the society.

Step 2: Environmental Analysis: Environmental factors -both internal environment and external environment are analyzed to:

a) identify changes in the environment,
b) Identify present and future threats and opportunities, and
c) Assess critically its, own strengths and weaknesses.

Organizational environment encompasses all factors both inside and outside the organization that can influence the organization positively and negatively. Environmental factors may help in building a sustainable competitive advantage.

Step 3: Revise Organizational Direction: A thorough analysis of organization's environment pinpoints it's strengths, weaknesses, opportunities and threats (SWOT). This can often help management to reaffirm or revise its organizational direction.

Step 4: Strategic Alternatives and Choice: Many alternative strategies are formulated based on possible options and in the light of organizational analysis and environmental appraisal. Alternative strategies will be ranked based on the SWOT analysis. The best strategy out of the alternatives will be chosen.

The steps from identification of business mission, purpose and objectives of alternative strategies and choice can be grouped into the broad step of strategy formulation.

Step 5: Strategy Implementation: The fifth step of strategic management process is the implementation of strategy. The logically developed strategy is to be put into action. The organization can not reap the benefits of strategic management, unless the strategy is effectively implemented.

The managers should have clear vision and idea about the competitor's strategy, organization's culture, handling change, skills of the managers-in-charge of implementation and the like. The progress from the stage of identification of business mission, purpose and objectives to the stage of achieving desired performance must overcome many obstacles.

Step 6: Strategic Evaluation and Control: The final step of strategic management process is strategic evaluation and control. It focuses on monitoring and evaluating the strategic management process in order to improve it and ensure that it functions properly. The managers must understand the process of strategic control and the role of strategic audit to perform the task of control successfully.

Strategic management process is presented as a series of discrete steps for the purpose of simplicity in the learning process. But, managers find that an organization's strategic management effort requires that they perform several steps simultaneously and/or perform them in different order as presented.

Business Policy

The concept of Business policy: - An organization's performance is a faction of its policies and strategies. Its policies guide the decision making processes and are based upon the organization's values and its view of ethical responses of internal and external opportunities and treats.

Business policy is set of rules for functions and the responsibility of senior management towards those functions. For example, management functions such as marketing, finance, HR, production always have some predefined rules or guidelines and those rules are known as business policy of that respective area.

Decision-making is the primary task of a manager. While making decisions, it is common that managers consult the existing organizational policies relevant to the decisions Thus, policies are, intended to provide guidance to managers in decision-making. It has to be remembered that a policy is also a decision. But it is a one time standing decision in the light of which so many routine decisions are made.

Types of Business Policies

Policies come about in any organization in different ways. Based on their source, Koontz and O’donnel have classified policies under the following types.

1) **Originated policies:** Originated policies are the result of top management decisions. To guide the actions of the subordinates, top management formulates policies for the important functional areas of business such as Production, Marketing, Finance, Personnel and so on. These policies basically stem form the organizational objectives. They may be broad or specific depending on the centralization or decentralization of authority. If they are broad, they allow the subordinates some operational freedom. On the other hand if they are specific they are implemented as they are.

2) **Appealed Policies:** At times a manager may be in dilemma whether he has the authority to take a decision on a particular problem. There may not be precedents to guide him. In such a case, he appeals the matter to his superiors for their thinking. Thus, appeals are taken upwards till they reach the appropriate level in the hierarchy for a decision. The decision taken by the higher-ups thus becomes a ruling. For example, during festival seasons

3) **Implied Policies:** As in the above case, there may not be specific policies for all the contingencies. Managers draw meanings from the actions and behavior of their superiors. In a particular situation, a manager may go all out to help a customer who is in a difficult situation. If customer service is on top of the agenda of the organization, there may not be any objection from the top management to the stand taken by the lower level manager in support of the customer. Though there is no explicit policy, managers may assume it in a particular way and go about in their day-to-day operations.

4) **Externally Imposed Policies:** These are the policies imposed by the agencies in the external environment like government, trade unions, industry associations, consumer councils, etc. These agencies, to protect the interests of the respective groups may lay down certain policies to be followed by the business. As the interaction of the business with external environment is increasing, one can find

many policies thus coming into being in any modern business. For instance, the recruitment policy of the organization is influenced by the government's policy towards reservations to weaker sections. Anti pollution measures, concern for the quality of the product and customer service also falls in this category.

5) **Principles of Policy Making:** Policies help to ensure that all units of an organization operate under the same ground rules. They facilitate co-ordination and communication between various organizational units. This is possible because policies make consistency in action possible. In view of the importance of policies in guiding executive behavior, they have to be formulated carefully. In fact, policy formulation is one of the important executive responsibilities. Effectiveness of policies, therefore, lies in understanding the following principles underlying policy formulation.

Process of Policy Formulation

As mentioned earlier, the basic intention of policies is to help executive thinking in decision-making. Policies are formulated for all the key functional areas of business like production, marketing, finance, personnel and so on. Effectiveness and consistency of decisions in all these areas depend on how well the policies are formulated and understood. A policy is a plan. Therefore, the steps involved in policy formulation are similar to the steps in planning. Though policies vary, in respect of scope, the process of policy formulation usually involves the following steps:

1) Corporate Mission: Corporate mission specifies the purpose for which the organization exists. It is natural, therefore, that all the activities of the organization are geared towards the achievement of the mission. The mission statement provides the direction to the organization. As such, thorough understanding of the corporate mission is the starting point for policy formulation.

2) An appraisal of the Environment: Integration of the organization with the environment is the key function of the management. The nature of environment and the various forces in it that affect the business have to be analyzed. It includes collection of relevant information from the environment and interpreting its impact on the future of organization.

3) Corporate Analysis: While the focus in environmental appraisal is on the external factors of the business, corporate analysis takes into account the internal factors. Corporate analysis discloses strengths and weaknesses of the organization and points out the areas that have potential.

4) Identification of Alternatives: The above two steps - Environmental appraisal and corporate analysis popularly known as SWOT (strengths, weaknesses, opportunities and threats) analysis will help identifying the alternative policies. For example, the objective of the organization is expansion. This may be achieved by several ways. Diversification of the activities, acquisition of existing organizations, establishment of subsidiaries abroad and so on. Again, if diversification is chosen, it has to be decided whether it is into related or unrelated business. The alternative policies thus identified have to be evaluated in the light of the organizational mission and objectives.

5) **Choice of the right policy:** This stage involves choosing the right policy from among the several policy options that suits the organizational objectives. The Corporate history, personal values and attitudes of the management and the compulsions in the environment, if any, influence the choice of the policy.

6) **Policy Implementation:** Once the policy is decided, necessary steps have to be taken for its implementation. Effective implementation of the policy requires design of suitable organizational structure, developing and motivating people to contribute their best, design of effective control and information systems, allocation of resources, etc. At times, policies may have to be revised in line with the changes in the environment. To make good any inadequacy at the time of making the policy, or to adapt to the changes in the business environment, policies like plans have to be monitored constantly during the implementation stage.

Levels in Strategy

There are primarily three levels of strategies in the organization.

1. Corporate Level

2. Business Level

3. Functional Level

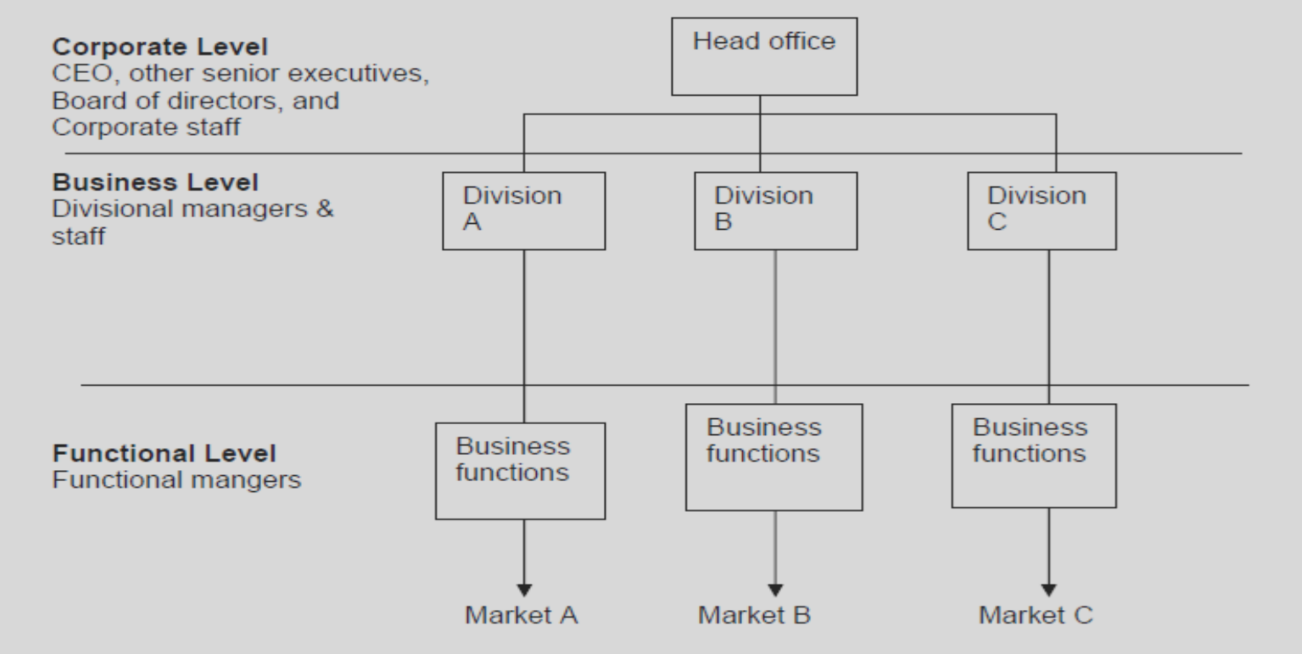


Figure: Level of Strategic Management

1) **Corporate Level:** The corporate level of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals occupy the top-committee of decision making within the organization. The CEO is the principal general manager. In consultation with other senior executives, the role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses
   It should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization. For example, strategies formed for Unilever Limited would be at corporate level.

2) **Business Level:** A business unit is a self-contained division (with its own functions-for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business level manager, is the head of the division. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Thus, whereas corporate-level general managers are concerned with strategies that span individual businesses, business-level general managers are concerned with strategies that are specific to a particular business.

3) **Functional Level:** Functional-level managers are responsible for the specific business functions or operations

(Human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions, Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfill the strategic objectives set by business & corporate-level general managers. Moreover, functional managers provide most of the information that makes it possible for business & corporate-level general managers to, formulate realistic and attainable strategies.

Meaning of Vision, Mission and Objectives

Amongst the various steps in the strategic management model we will restrict discussion to vision, mission and objectives.

What is Vision

The Concept of Vision:- Very early in the strategy making process, a company's senior managers must wrestle with the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects. Deciding to commit the company to one path versus another pushes managers to draw some carefully rezoned conclusions about how to try to modify the company's business makeup and the market position it should shake out.

A Strategic Vision is a road map of a company's future –providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

The three elements of a strategic vision:

1) Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "who we are and where we are now?
2) Using the mission statement as basis for deciding on a long-term course making trophy about "Where we are going?"
3) Communicating the strategic vision is clear, exciting terms that arouse organization wide commitment.

How to develop a Strategic vision:

1) The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
2) Forming a strategic vision is an exercise in intelligent entrepreneurship.
3) Many successful organizations need to change direction not in order to survive but in order to maintain their success.
4) A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organization.
5) The best-worded vision statement clearly and crisply illuminates the direction in which organization is headed.

What is Mission

The concept of Mission:-According to Glueck & Jauch mission is answer to the question 'what business are we in' that is faced by corporate-level strategist. Analysis shows that in actual practice many business firms fail to conceptualize and articulate the mission and business definition with the required clarity. And such firms are seen to fumble in the selection of opportunities and the choice of strategies. Firms wedded to the idea of strategic management of their enterprise cannot afford to be lax in the matter of mission and business definition, as the two ideas is absolutely central to strategic planning.

Why organization should have mission?

a) To ensure unanimity of purpose within the organization.
b) To provide a basis for motivating the use of the organization's resources.
c) To develop a basis, or standard, for allocating organizational resources.
d) To establish a general tone or organizational climate, for example, to suggest a business like operation.
e) To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot form participating future in the organization's activities.
f) To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
g) To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

A company's **Mission Statement** is typically focused on its present business scope- "Who we are and what we do", mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

What is Objectives

Business organization translates their vision and mission into objectives. As such the term objectives are synonymous with goals, however, we will make an attempt to distinguish the two. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close ended attributes, which are precise and expressed in specific terms. Thus the goals are more specific and translate the objectives to short term perspective. However, several theorists on the subject do not make this distinction. Accordingly, we will also use the term interchangeably. All organizations have objectives. The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavor. Organizational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Objectives are organizations performance targets-the results and outcomes it wants to achieve. They function as yardsticks for tracking an organizations performance and progress.

Objectives with strategic focus relate to outcomes that strengthen an organizations overall business position and competitive vitality. Objective to be meaningful to serve the intended role must possess following characteristics:

- Objectives should define the organization's relationship with its environment.
- They should be facilitative towards achievement of mission and purpose.
- They should provide the basis for strategic decision-making.
- They should provide standards for performance appraisal.
- Objectives should be understandable.
- Objectives should be concrete and specific.
- Objectives should be related to a time frame.
- Objectives should be measurable and controllable.
- Objectives should be challenging.

- Different objectives should correlate with each other.
- Objectives should be set within constraints.

Corporate Governance – Definitions

A corporation or company is an enterprise authorised by law to conduct business.

“Governance is the process whereby people in power make decisions that create, destroy or maintain social systems, structures and processes.

Corporate Governance is the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. Thus corporate governance deals with – not only rules, laws and regulations but also the moral and ethical code that the officers concerned are expected to follow.

Corporate Governance – Definitions

According to Thiery Buch – ‘Good Corporate Governance is the glue that holds together responsible business practices, which ensures positive work place management, market place responsibility, environmental stewardship, community engagement and sustained financial performance. This is even more true now as we work worldwide to restore confidence and promote economic growth’.

“Corporate governance can be defined as a set of systems and processes which ensure that a company is managed to the best interests of all the stakeholders.

Corporate Governance – Objectives

1. To align corporate goals with the goals of its stakeholders (society, shareholders etc.).

2. To strengthen corporate functioning and discourage mismanagement.

3. To achieve corporate goals by making investment in profitable outlets.

4. To specify responsibility of the Board of Directors and managers in order to ensure good corporate performance.

Board of Directors – Composition

The individuals at the highest level of management are responsible for the functioning of the company. These high-level members of the company are called directors. Collectively, all directors as a group and the supreme acting authority of the company are called 'board of directors'

Board of Directors Composition

The board of directors are can be called the brain of the company. They are responsible for taking all the big decisions and making policy changes. These decisions are taken in special meetings members of the board hold together, called 'Board Meetings'.

Section 149 of the Companies Act states that every company's board of directors must necessarily have a minimum of three directors if it is a public company. two directors if it is a private company and one director in a one person company.

The maximum number of members a company can assign as directors is fifteen. However, the company can pass a special resolution in a general meeting to allow for assigning more than fifteen members to the board of directors.

The maximum number of companies that an individual can become a director of, is 20 companies.

At least one director, who has lived in India for a minimum of 182 calendar days of the previous year, shall be appointed by every company's board. It is a mandatory rule.

Duties & Responsibilities of Board of Directors
The duties and responsibilities of the board of directors are as follows

1. **Trusteeship**: The board of directors act as trustees to the property and welfare of the company. Hence, the board must use the company's property for the long-run gain of the company, but not for their personal use.

2. Formulation of Mission, Objection and Policies: Board of directors must see the long run view and have long run perspective of the company. The board formulates, reviews and reformulates the company's mission, objectives and policies which forms the basis for strategy formulation and implementation.

3.Designing Organizational Structure: The board designs the structure of the organization based on the objectives, policies, environmental factors, degree of competition, role of quality, expectations of employees etc.

4.Selection of Top Executives: The board should assume the responsibility of screening and selecting the top executives who can formulate and implement the strategies. Chief executives are key personnel in the process of strategy implementation.

5.Financial Sanctions: The important financial decisions like sanctioning of finances to various projects, reserves, distribution of profit to shareholders and repayment of loans and advances etc., are taken by the board. Further, the board reviews the financial performance of the company from time to time and reformulates the financial policies.

6. Feed forward and Feedback: The board has to obtain information from the external environmental factors and feed that information forward to various key points in the company in order to prevent possible hurdles and mistakes in the process of achieving organizational goals. Further, the board also obtains the information from internal sources of the organization, and feeds it forward to prevent possible failures in decision-making by the top level executives.

The board also feeds the information back to the executives regarding their failures in decision-making with a view to avoid the recurrence of such mistakes. Thus, feedback of information helps the board to check and control the activities as board has the ultimate responsibility for the success of the company.

7. Link between the Company and External Environment: The board acts a vital and continuous link between the company and external environment like government, other companies, social and economic institutions etc.

Appointment of Board of Directors

The functions and responsibilities of the board of directors differ based on the board composition and its relationship with the company regarding its management. Some directors on the board are appointed by the government to look after its interests.

Some directors are appointed by the financial institutions like Industrial Finance Corporation of India, Industrial Development Bank of India, Industrial Credit and

Investment Corporation of India and State Financial Corporations which provide long-term loans and advances to the company, to safeguard their interest.

Some experts are also appointed on the board to offer their expertise to the company. Some companies emphasis only on legal aspects of board functions. However, many companies today emphasis on management aspects of board functions also.

Legal Functions of Board of Directors
The board of directors also performs certain legal functions required as per the Companies Act 1956 like criminal liabilities.

The following table presents legal functions of the boards.

I. Duty of Loyalty
- Avoiding conflicts of Interest
- Fairness
- Corporate Opportunity (Ahead of Personal)
- Confidentiality

II. Duty of Care
- A director performs his duties in good faith and in a manner that he serves for the best interest of the corporation, and as an ordinary person in a like position under certain circumstances.
- Attention at meetings, Reliance on management and professional information and Delegation (to management to operate the business)
- Decision Making – exercise reasonable business judgment.

Formal and Informal Functions of BOD
In fact, the board has to direct and lead the executives. The directing function has both formal and informal components. The board, formally reviews and screens the executive decisions and informally directs the activities in view of environmental factors. In general, the board directs, guides and controls the top executives in formulating, implementing, evaluating and controlling objectives, policies and strategies.

In Practice: Mace, in his research, found that the board of directors actually
1. Serve as source of advice and counsel;
2. Offer some sort of discipline, value; and
3. Act in crisis situations," instead of performing (as per the concepts) of

- Selecting top executives;
- Determining policy;
- Measuring results;
- Asking discerning questions.

UNIT-2

Environmental Scanning: Understanding the Macro Environment: PESTEL Analysis, Industrial Organization (IO) & the Structure Conduct Performance (SCP) approach, Porter's Five Forces Model, Understanding the Micro Environment: Resource Based View (RBV) Analysis, VRIO Framework, Using resources to gain Competitive advantage & its sustainability, Value Chain Analysis

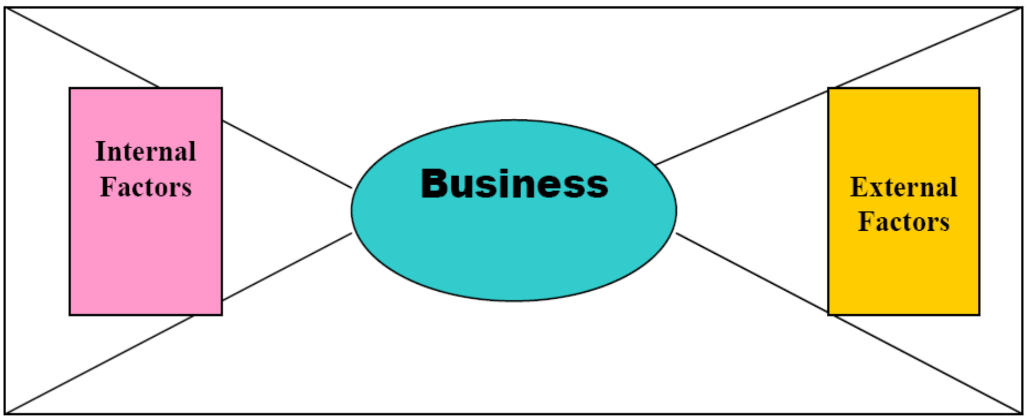
Environmental Scanning

Environmental scanning is the exploration phase of the strategic planning process. It is the systematic process of collecting and analyzing information for the purposes of planning, forecasting, or choosing a preferred future. The environment of an organization consists of the conditions, circumstances and influences which affect the organization's ability to achieve its objectives. Broadly, an organizational environment consists of two elements – the internal and the external.

In Business the environment scanning in which an organization exists could be broadly divided into two parts:

A) The Internal environment (Related the factors such as its personnel, physical facilities, organization and functional means, which are generally controllable.

B) The External environment (Related the factors such as economic, socio cultural, Government and legal, demographic, geo – physical – by and large beyond the control



The External environment includes all the factors outside the organization, which provide opportunities or pose threats to the organization.

The internal environment refers to all the factors within an organization which imparts strengths or cause weaknesses of a strategic nature. The environment in which an organization exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strength and weaknesses existing in the internal environment.

1. INTERNAL ENVIRONMENT:

There are a number of internal factors which influence the strategy and other decisions. An outline of the important internal factors is given below:

1) **Value system**: The value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and objectives of the organization, business policies and practices. It is a widely acknowledges fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success.

2) **Mission and Objectives:** The business domain of the company, priorities, direction of development, business philosophy, business policy etc. is guided by the mission and objectives of the company.

3) **Management Structure and Nature:** the organizational structure, the composition of the board of directors, extent of professionalization of management etc. are important factors influencing business decisions.

4) **Internal Power Relationship:** Factors like the amount of support the top management enjoys from lower levels and workers, share holders and board of directors have important influence on the decisions and their implementation. The relationship between the members of the Board of directors is also a critical factor.

5) **Human Resources**: The characteristics of the human resources like skill, quality, morale, commitment, attitudes, etc. could contribute to the strength or weakness of an organization. Sometimes, organizations find it difficulties to carry out restructuring or modernization because of resistance by employees whereas they are smoothly one in some others.

6) **Company Image and Brand Equity**: The image of the company matters while raising finance, forming joint ventures or other alliances, soliciting marketing intermediaries, entering purchase or sale contracts, launching new products etc. Brand equity is also relevant in several of these cases.

2. EXTERNAL ENVIRONMENT:

The external environment consists of two types of environment, viz micro environment and macro environment. Recently the International environment comes under mega environment.

(A). Micro Environment: The Micro environment consists of the actors in the company's immediate environment, hat affect the performance of the company. These include –

- **Suppliers** – those who supply the inputs like raw materials
- **Marketing intermediaries** – which are 'firms that aid the company in promoting, selling and distributing its goods to final buyers'
- **Competitors** – not only other firms of similar products but also all those who compete for the discretionary income of the consumers.
- **Customers** – Business is a create of customer; therefore monitoring the customer sensitivity is a prerequisite for the business success.
- **Publics** – is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interests. Media publics, citizen's action publics and local publics are some examples.

2. Macro Environment:-The Macro environment consists of the larger societal forces that affect all the actors in the company's micro environment – namely:

1) **Demographic** – population growth rate, age composition, sex composition, education level, caste and creed, religion etc. All factors which relevant to business.

2) **Economic**- economic condition, economic policies and the economic system are the important external factors that constitute the economic environment of a business

3) **Natural** – geographical, and ecological factors, such as natural resources endowments, weather and climatic conditions, topographic factors, location aspects in the global context, ort facilities, etc. , are all relevant to business

4) **Technological** – the fast changing technologies also create problems for enterprises as they render plants and products obsolete quickly. Product – market – matrix generally has a much shorter life today than in the past. It is particularly so in the international marketing context.

5) **Political –** Political and Government environment has close relationship with the economic system and economic policy. For example, the communist countries had a centrally planned economic system. In most countries, apart from those laws that control investment and related matters, there are a number of laws which regulate the conduct of business. These laws cover such matters as standards of product, packaging, promotions etc.

6) **Socio – Cultural:** socio – cultural fabric is an important environment factor that should be analyzed while formulating the business strategies. The cost of

ignoring the customs, traditions, taboos, tastes and preferences etc. of a people could be very high. The buying and consumption habits of the people, their languages, beliefs, and values, customs and traditions, tastes and performances, education are all factors that affect business.

Approaches of environmental scanning:

Kubr has suggested three approaches, which could be adopted for sorting out information for environmental scanning

1. **Systematic approach:** Gathering information for environmental scanning which have a direct impact on organizations activities, Govt. policy statements pertaining to an organization's business and industry to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.

2. **Ad Hoc approach**: Using this approach, an organization when undertake special projects, evaluate existing strategies, or devise new strategies; may conduct special survey and studies to deal with specific environmental issues periodically.

3. **Processed – form approach:** when an organization uses information supplied by Govt. or private agencies, it uses secondary sources of data and the information gathered in a processed form.

Since **environmental scanning** is absolutely necessary for strategy formulation of any organization, whatever approaches is adapted, DATA Collection and Processing systematically is ultimate for Strategic Management Process.

Techniques/Methods of Environmental scanning:

Environmental scanning is a technique of detail study of the environment. It is done to assess the trend of the environment and prepare the organization accordingly. There are different techniques/methods of environmental scanning. They are discussed below:

1) **Executive opinion method: -**It is also called executive judgment method. Under this environment is forecasted on the basis of opinion and views of top executives. A panel is formed consisting of these executives.
2) **Expert opinion method: -**Under this environment forecasting is based an opinion of outside experts or specialist. The experts have better knowledge about market conditions and customer taste and preferences. This method is similar to executive opinion method. However, it uses external experts.
3) **Dephi method:-**This method is extension of expert opinion method. It involves forming a panel of experts and questioning each member of the panel about the future environmental trend. Later, the responses and summarized and returned to the members for assessment. This process continues till the acceptable consensus is achieved.

4) **Extrapolating method:-** Under this method, the past information is used to predict the future. Different methods used to extrapolate the future are time series, trend analysis and regression analysis.

5) **Historical analogy: -** Under this, the environmental trends are analyzed with the help of other trends which are parallel to historical trend.

6) **Intuitive reasoning:-**Under this, rational and unbiased intuition is used for environmental scanning. Environmental dynamics are guessed individual judgment. Reliability of this method is questionable.

7) **Scenario building:-** Scenarios are the pictures of possible future. They are built on the basis of time ordered sequence of events that have logical cause and effect relationship with each other. Scenarios are built to address future contingencies.

8) **Cross-impact matrix:-** Under this, environmental forecasts through various methods are combined to form and integrated and consistent description of future. Cross impact matrix is used to assess the internal consistency of the forecasts.

Process of Environmental Scanning/Analysis:

- **Scanning:-**Environmental scanning involves the study of the general environment. It helps to identify the early signals of potential changes in the environment. It also detects changes that are already under way. It normally reveals ambiguous, incomplete, or unconnected data and information. The scanning system should be aligned with the organizational context. Hence, a scanning system designed for a volatile environment may be inappropriate for a stable environment. Many organizations even use special software and internet for environmental scanning.

- **Monitoring:-**Monitoring involves observation of environmental changes to see the trend. It detects meaning in different environmental events and trends. Scanning and monitoring are particularly important when a firm competes in a highly volatile environment. They help gather knowledge about markets and other components.

- **Forecasting:-** Scanning and monitoring are concerned with events and trends in the general environment at a point in time. Forecasting involves developing feasible projections of what might happen and how quickly. It is done on the basis of changes and trends. Forecasting is a challenging work.

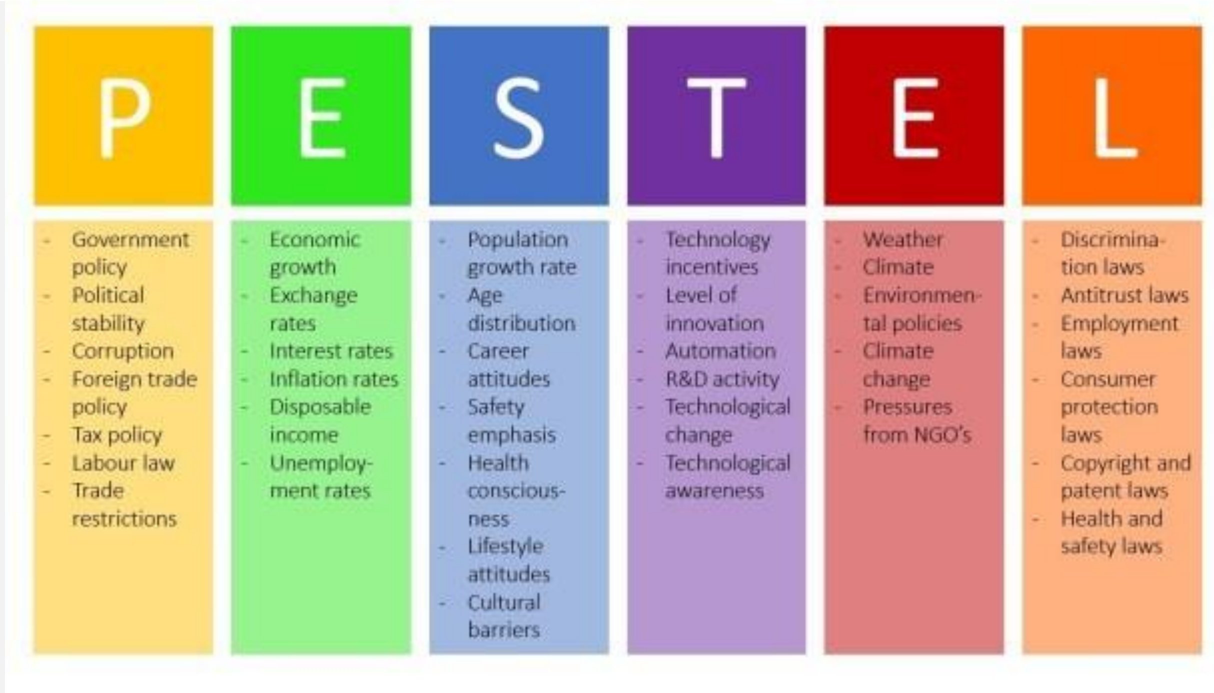
- **Assessing: -** Assessing determines the timing and significance of the effects of environmental changes and trends that have been identified. It specifies the implications of that understanding. Assessing connects the data and information with competitive relevance. Equally important is interpreting the data and information to determine the trend as opportunity or threat for the organization.

PESTEL Model: it involves the collection and portrayal of information about external factors which have, or may have, an impact on business.

PEST analysis- It is an analysis of the political, economic, social and technological factors in the external environment of an organization, which can affect its activities and performance.

PESTEL Analysis

PESTEL analysis includes Political, Economic, Social, Technological, Environmental and Legal analysis. It is an external environment analysis for conducting a strategic analysis or carrying out market research. It offers a certain overview of the varied macro-environmental factors that the company has to consider.



PESTEL

Industry Analysis

An industry is defined as a group of companies offering products or services that are close substitutes of each other. Close substitutes are those products or services that satisfy the same basic customer needs. For example, tea is a close substitute of coffee as its is considered a healthier alternative with a lower caffeine content and antioxidant properties that help develop body resistance to cancer and heart disease. Any analysis of the tea or coffee industry would have to consider the other stimulant as a close substitute.

The model originated from Michael E. Porter's 1980 book "Competitive Strategy: Techniques for Analyzing Industries and Competitors." Since then, it has become a frequently used tool for analyzing a company's industry structure and its corporate strategy.

In his book, Porter identified five competitive forces that shape every single industry and market. These forces help us to analyze everything from the intensity of competition to the profitability and attractiveness of an industry. Shows the relationship between the different competitive forces

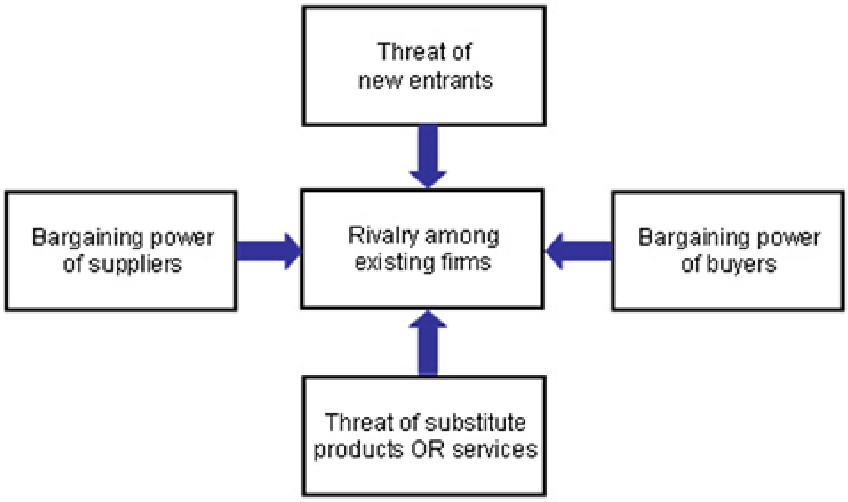


Diagram of Porter's 5 Forces

1. **Threat of New Entrants and Entry Barriers:** It is not only incumbent rivals that pose a threat to firms in an industry; The possibility that new firms may enter the industry also affects competition. In theory, any firm\ should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market.

2. **Power of Suppliers:-**This is how much pressure suppliers can place on a business. If one supplier has a large enough impact to affect a company's margins and volumes, then it holds substantial power. Here are a few reasons

that suppliers might have power:

- Existing loyalty to major brands
- Incentives for using a particular buyer (such as frequent shopper programs)
- High fixed costs
- Scarcity of resources
- High costs of switching companies
- Government restrictions or legislation

3. **Power of Buyers -** This is how much pressure customers can place on a business. If one customer has a large enough impact to affect a company's margins and volumes, then the customer hold substantial power. Here are a few reasons that customers might have power:
   - There are very few suppliers of a particular product
   - There are no substitutes
   - Switching to another (competitive) product is very costly
   - The product is extremely important to buyers - can\'t do without it
   - The supplying industry has a higher profitability than the buying industry

4. Availability of Substitutes - What is the likelihood that someone will switch to a competitive product or service? If the cost of switching is low, then this poses a serious threat. Here are a few factors that can affect the threat of substitutes:

- Small number of buyers
- Purchases large volumes
- Switching to another (competitive) product is simple
- The product is not extremely important to buyers; they can do without the product for a period of time
- Customers are price sensitive

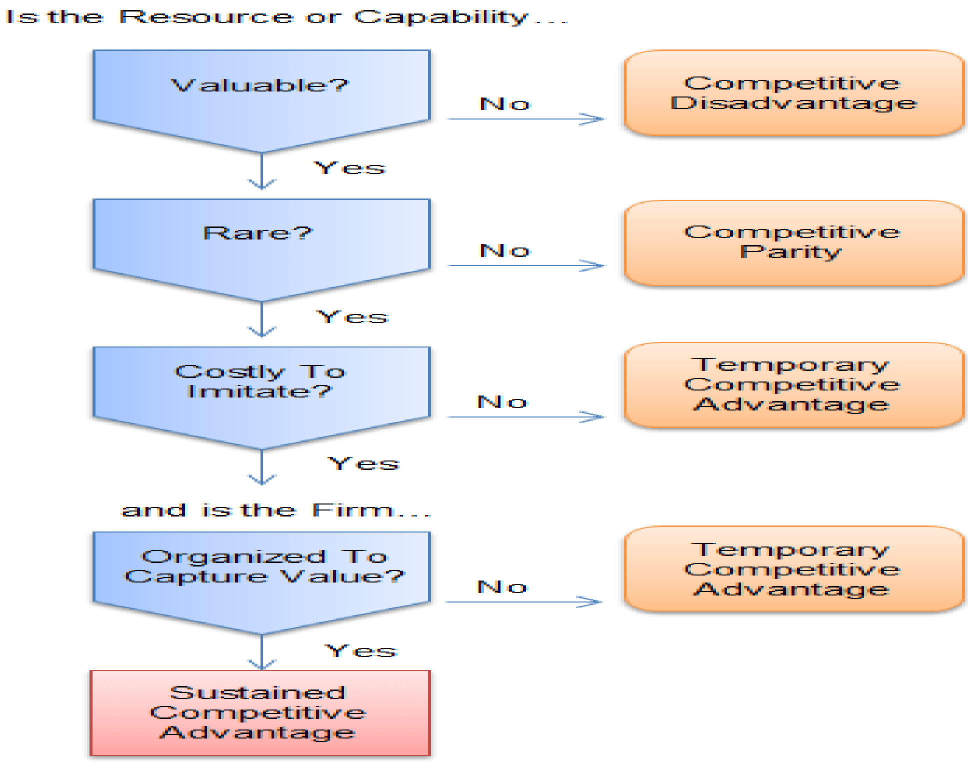
1. **Competitive Rivalry -** This describes the intensity of competition between existing firms in an industry. Highly competitive industries generally earn low returns because the cost of competition is high. A highly competitive market might result from:

   - The main issue is the similarity of substitutes. For example, if the price of coffee rises substantially, a coffee drinker may switch over to a beverage like tea.

   - If substitutes are similar, it can be viewed in the same light as a new entrant. Trading Center

VRIO Framework:

Definition: VRIO framework is the tool used to analyze firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage.



Valuable

The first question of the framework asks if a resource adds value by enabling a firm to exploit opportunities or defend against threats. If the answer is yes, then a resource is considered valuable. Resources are also valuable if they help organizations to increase the perceived customer value. This is done by increasing differentiation or/and decreasing the price of the product. The resources that cannot meet this condition, lead to competitive disadvantage. It is important to continually review the value of the resources because constantly changing internal or external conditions can make them less valuable or useless at all.

Rare

Resources that can only be acquired by one or very few companies are considered rare. Rare and valuable resources grant temporary competitive advantage. On the other hand, the situation when more than few companies have the same resource or uses the capability in the similar way, leads to competitive parity. This is because firms can use identical resources to implement the same strategies and no organization can achieve superior performance.

Even though competitive parity is not the desired position, a firm should not neglect the resources that are valuable but common. Losing valuable resources and capabilities would hurt an organization because they are essential for staying in the market.

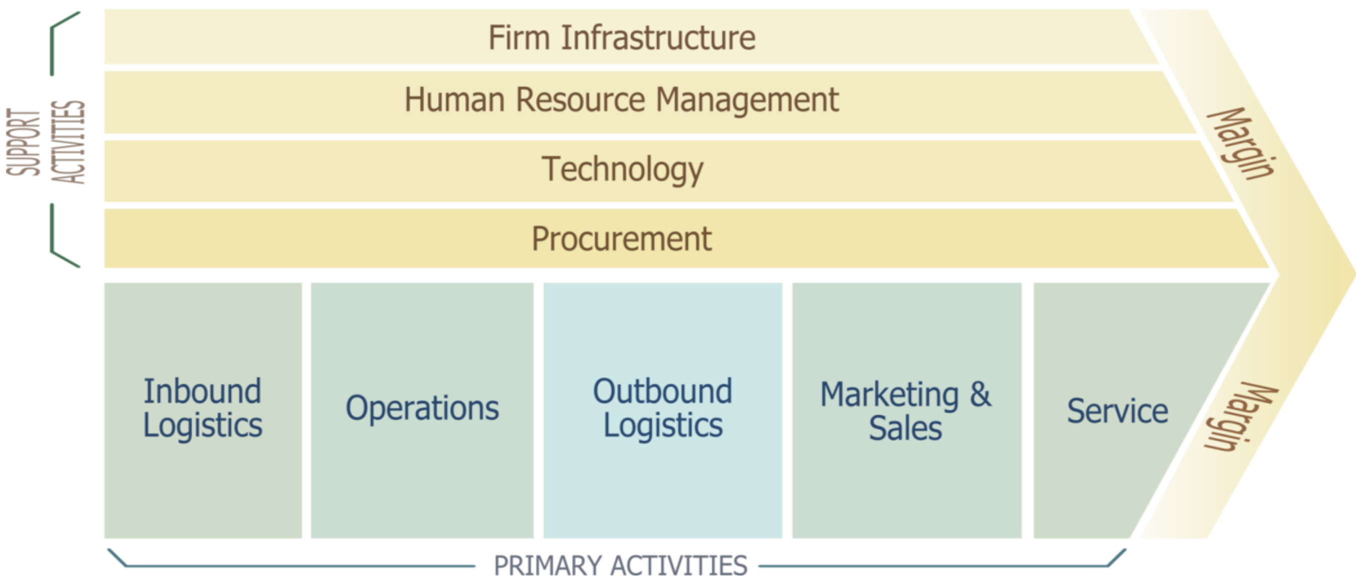
Costly to Imitate
A resource is costly to imitate if other organizations that doesn't have it can't imitate, buy or substitute it at a reasonable price. Imitation can occur in two ways: by directly imitating (duplicating) the resource or providing the comparable product/service (substituting).

A firm that has valuable, rare and costly to imitate resources can (but not necessarily will) achieve sustained competitive advantage. Barney has identified three reasons why resources can be hard to imitate:

Organized to Capture Value
The resources itself do not confer any advantage for a company if it's not organized to capture the value from them. A firm must organize its management systems, processes, policies, organizational structure and culture to be able to fully realize the potential of its valuable, rare and costly to imitate resources and capabilities. Only then the companies can achieve sustained competitive advantage.

<u>Value Chain Analysis:</u> Michael E. Porter
A value chain is the full range of activities – including design, production, marketing and distribution – businesses conduct to bring a product or service from conception to delivery. For companies that produce goods, the value chain starts with the raw materials used to make their products, and consists of everything added before the product is sold to consumers.

Value chain management is the process of organizing these activities in order to properly analyze them. The goal is to establish communication between the leaders of each stage to ensure the product is placed in the customers' hands as seamlessly as possible.



Primary activities include the following:

- **Inbound logistics** are the receiving, storing and distributing of raw materials used in the production process.
- **Operations** is the stage at which the raw materials are turned into the final product.
- **Outbound logistics** is the distribution of the final product to consumers.
- **Marketing and sales** involves advertising, promotions, sales-force organization, distribution channels, pricing and managing the final product to ensure it is targeted to the appropriate consumer groups.
- **Service** refers to the activities needed to maintain the product's performance after it has been produced, and includes things like installation, training, maintenance, repair, warranty and after-sale services.

The support activities help the primary functions and comprise the following:

- **Procurement** is how the raw materials for the product are obtained.
- **Technology development** can be used in the research and development stage, in how new products are developed and designed, and in process automation.
- **Human resource management** includes the activities involved in hiring and retaining the proper employees to help design, build and market the product.
- **Firm infrastructure** refers to an organization's structure and its management, planning, accounting, finance, and quality-control mechanisms.

IFE & EFE matrix:

Internal Factor Evaluation (IFE) Matrix is a strategy tool used to evaluate firm's internal environment and to reveal its strengths as well as weaknesses.

Strengths and weaknesses are used as the key internal factors in the evaluation. When looking for the strengths, ask what do you do better or have more valuable than your competitors have? In case of the weaknesses, ask which areas of your company you could improve and at least catch up with your competitors?

External Factor Evaluation (EFE) Matrix is a strategy tool used to examine company's external environment and to identify the available opportunities and threats.

When using the EFE matrix we identify the key external opportunities and threats that are affecting or might affect a company.

ORGANISATIONAL CAPABILITY:

ORGANISATIONAL CAPABILITY Organizational capability is the inherent capacity or potential of an organization to use its strengths and overcome its weaknesses in order to exploit opportunities and face threats in its external environment. -It is also viewed as a skill for coordinating resources and putting them to productive use.

Organizational Capability Factors:
Organizational Capability Factors -Capabilities are developed in specific areas. -Marketing and Operations or in a part of a functional areas, such as R&D & Distribution. -We have divided an Organization into six largely accepted functional Areas.

FUNCTIONAL AREAS:
FUNCTIONAL AREAS (1)FINANCE (2)MARKETING (3)OPERATIONS (4)PERSONNEL (5)INFORMATION (6)GENERAL MANAGEMENT

Financial Capability:
Financial Capability Factors influencing financial capability:- (a)Factors related to sources of funds. (b)Factors related to usage of funds. (c)Factors related to management of funds.

MARKETING CAPABILITY:
MARKETING CAPABILITY Factors influencing marketing Capability:- (a)Product related factors (b)Price related factors (c)Place related factors (d)Promotion related factors (e) Integrative and systemic factors

OPERATIONS CAPABILITY:
OPERATIONS CAPABILITY Factors influencing: Production System Operations and Control system R&D System

PERSONNEL CAPABILITY:
PERSONNEL CAPABILITY Factors influencing Personnel Capability:- (a)Factors related to personnel system. (b)Factors related to organizational & employee's characteristics. (c)Factors related to industrial relations.

INFORMATION MANAGEMENT CAPABILITY :
INFORMATION MANAGEMENT CAPABILITY Factors influencing info. Management capability:- (a)Acquisition and retention of information. (b)Processing and synthesis

of information. (c)Retrieval and usage of information. (d)Transmission and dissemination.

GENERAL MANAGEMENT CAPABILITY:

GENERAL MANAGEMENT CAPABILITY factors influencing general management capability:- (a)Factors related to general management system. (b)Factors related to General managers. (c)Factors related to external relations. (d)Factors related to organizational climate.

STRATEGIC ADVANTAGE:

STRATEGIC ADVANTAGE -Strategic advantages are the outcomes of Organizational capabilities. -Competitive advantages are the outcomes of Organizational capabilities. -profitability or loss can be the possible outcomes of presence or absence of organizational capabilities.

UNIT-3

Strategy Formulation: Situational Analysis using SWOT approach Business Strategies: Competitive Strategy: - Cost Leadership, Differentiation & Focus, Cooperative Strategy: - Collusion & Strategic Alliances Corporate Strategies: Directional Strategy: Growth strategies, Stability Strategies & Retrenchment Strategies. Corporate Parenting Functional Strategies: Marketing, Financial, R&D, Operations, Purchasing, Logistics, HRM & IT. The sourcing decision: Outsourcing & offshoring

STRATEGY FORMULATION

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization’s success, because it provides a framework for the actions that will lead to the anticipated results. Strategic plans should be communicated to all employees so that they are aware of the organization’s objectives, mission, and purpose. Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur. A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment).

Steps in Strategy Formulation Process:

The process of strategy formulation includes following components:-

1) **Setting Organizations’ objectives -** The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

2) **Evaluating the Organizational Environment -** The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management

can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

3) **Setting Quantitative Targets -** In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

4) **Aiming in context with the divisional plans -** In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.

5) **Performance Analysis -** Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

6) **Choice of Strategy** - This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

ISSUES IN STRATEGY FORMULATION:

An organization needs to address certain major issues during strategy formulation which are as follows:

1. **Social Responsibility and Ethics:** Social responsibility and ethics are the major issues in strategy formulation. Responsibility of the organization to fulfill expectations of the society as well as shareholders (financial in nature) is denoted as social responsibility. The viewpoint of the organization towards its social responsibility can be crucial during strategy decision-making. In case the organization does not consider social obligations, the strategic decisions will mostly focus on profit-making and small objectives and would not strive to balance social objectives which the organization represents. But it is an arguable topic to determine whether social obligations play a relevant role in strategic decision- making process.

2. **Managerial Ethics:** Another issue important in strategy formulation is managerial ethics. An individual's obligation to make sincere, accurate, moral and lawful business decisions is known as ethics. Strategic decisions should not be

designed in a manner which compels executives or employees to carry out activities incompatible with ethical beliefs concerning with the duty they may have to perform in the business activities of the firm.

3. **Organizational Culture and Strategy**: Organizational culture and strategy are also important issues in strategy formulation. The strategic decisions taken by the top management should be in uniformity with the features of the organizational culture. Common values and forms of belief and behavior endorsed and practiced by all the members of an organization denote organizational culture of that organization. Every organization within a particular industry and city will manifest discrete and different methods of functioning since it works on its own unique organizational culture. The ability of an organization to modify as per the environmental changes and to combine and co-ordinate its internal activities is dependent on its organizational culture.

Strategy Formulation: Corporate, Business, Functional strategy

Strategy can be formulated at three levels, namely, the corporate level, the business level, and the functional level. At the corporate level, strategy is formulated for your organization as a whole. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes. At the business unit level, strategy is formulated to convert the corporate vision into reality. At the functional level, strategy is formulated to realize the business unit level goals and objectives using the strengths and capabilities of your organization. There is a clear hierarchy in levels of strategy, with corporate level strategy at the top, business level strategy being derived from the corporate level, and the functional level strategy being formulated out of the business level strategy.

In a single business scenario, the corporate and business level responsibilities are clubbed together and undertaken by a single group, that is, the top management, whereas in a multi business scenario, there are three fully operative levels.

Levels of Strategy

1. **Corporate Level**

Corporate level strategy defines the business areas in which your firm will operate. It deals with aligning the resource deployments across a diverse set of business areas, related or unrelated. Strategy formulation at this level involves integrating and managing the diverse businesses and realizing synergy at the corporate level. The top management team is responsible for formulating the corporate strategy. The corporate strategy reflects the path toward attaining the vision of your organization. For example, your firm may have four distinct lines of business operations, namely, automobiles, steel, tea, and telecom. The corporate level strategy will outline whether the organization should compete in or withdraw from each of these lines of businesses, and in which business unit, investments should be increased, in line with the vision of your firm.

2. **Business Level**

Business level strategies are formulated for specific strategic business units and relate to a distinct product-market area. It involves defining the competitive position of a strategic business unit. The business level strategy formulation is based upon the generic strategies of overall cost leadership, differentiation, and focus. For example, your firm may choose overall cost leadership as a strategy to be pursued in its steel business, differentiation in its tea business, and focus in its automobile business. The business level strategies are decided upon by the heads of strategic business units and their teams in light of the specific nature of the industry in which they operate.

3. **Functional Level**

Functional level strategies relate to the different functional areas which a strategic business unit has, such as marketing, production and operations, finance, and human resources. These strategies are formulated by the functional heads along with their teams and are aligned with the business level strategies. The strategies at the functional level involve setting up short-term functional objectives, the attainment of which will lead to the realization of the business level strategy.

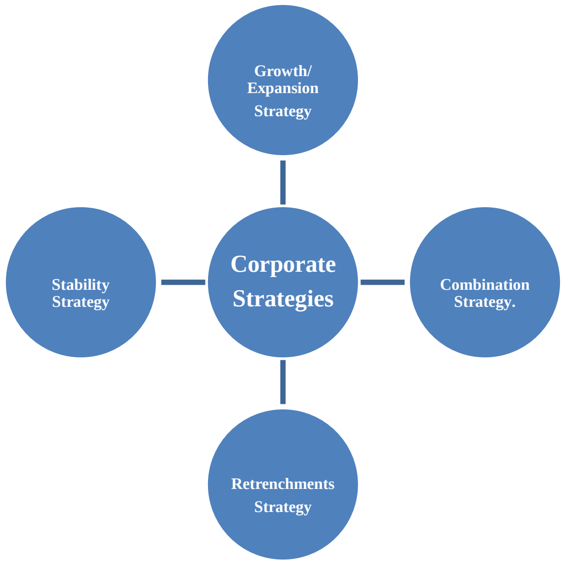
For example, the marketing strategy for a tea business which is following the differentiation strategy may translate into launching and selling a wide variety of tea variants through company-owned retail outlets. This may result in the distribution objective of opening 25 retail outlets in a city; and producing 15 varieties of tea may be the objective for the production department. The realization of the functional strategies in the form of quantifiable and measurable objectives will result in the achievement of business level strategies as well.

CORPORATE STRATEGY

The grand strategy of the company is also known as the corporate strategy or the master strategy. It provides the general plan by which the company intends to achieve its long-term goals. It basically falls into four types - expansion, stability, retrenchment and combination. Companies which can have many product lines in various stages of development can adopt any number of these grand strategies. At the same time any one of these four grand strategies can be instrumental in the company's achievement of its long-term goal.

TYPES OF CORPORATE STRATEGIES

There are four types of grand strategies, these are as follows:



(A) Growth/ Expansion Strategy

In the competitive environment, growth is considered as the most common long-term goal of every enterprise in order to sustain their existence. Growth provides wide range of opportunities to each and every individual in the organisation for its existence and expansion. In order to grow successfully, the organisation has to ensure that the considerations for expansion are met. Growth allows the organisation to maintain and enhance position of the industry, both in domestic and international markets.

Therefore, the expansion strategy is a strategic option which is vital for the survival of the organisation. This also helps the enterprise to speed up the growth rate of sales, profits and market share by introducing new products, entering new markets, utilizing new technologies and developing effective managerial competencies.

Reasons to Pursue Growth Strategy

An organisation follows a growth strategy because of the following reasons:

1) **Creates Strength:** Growth acts as a source of strength. It is time and again compared with the cultural values of the company. Hence, a growing company is considered successful while a company unable to expand its business is regarded as a failure.

2) **Necessary for Survival:** The strategy of growth is relevant in industries which are subject to frequent changes in technology and environmental conditions. Such industries should exploit all opportunities and overcome its threats.

3) **Employee Satisfaction:** Growth strategy increases the motivation of top management. When an organisation is able to achieve growth in a particular industry its employees are also able realize their individual career growth. It also opens up opportunities for management to exhibit their skills.

4) **Increases Productivity**: According to experience curve theory, over time with increasing size and experience of an enterprise the productivity increases and cost decreases.

Issues Involved in Growth Strategy

1) **Growing too Fast:** Organisations doing successful business and having high demand for their product and/or services are generally affected by this issue. Rapid growth can turn into severe problems for organisations lacking effective contingency strategies. Sometimes organisations growing too fast may have to suffer huge consequences in order to achieve success.

2) **Expansion Capital:** Sometimes additional capital is required by small organisations so as to maintain teir position in the growth stage. It may be a frustrating situation for the unprepared organisations to arrange such expansion capital but for organisations having effective contingency plan, it is not an issue. In order to secure sufficient financing, organisations should regularly review their business plan alongwith updating marketing strategies.

3) **Personnel Issues:** Issues concerning the personnel of the organisation are also relevant here. Variety of personnel is required for different organisational objectives and operations like new product development, record-keeping, marketing, administration, etc., during the expansion of the organisation. Therefore, identifying and managing issues related to personnel is very crucial for effective expansion of the organisation.

4) **Customer Service:** During expansion or growth, organisations generally lack in customer service, although it is the most crucial factor for the success of any organisation. Thus, it becomes very difficult for organisations to maintain their growth alongwith retaining current customers. Large size of work staff is the key to this problem as it enables fulfilment of all their needs and desires.

5) **Disagreements among Ownership:** Several incidences have proved that positioning of business ownership which performed quite efficiently during the initial growth phases of the business have later on become more and more troublesome as business problems become more complicated.

Types of Growth Strategy

Types of growth strategy include:

1) Concentration strategy,
2) Diversification strategy,
3) Integration strategy,
4) Internationalisation strategy, and
5) Cooperation strategy.

(B) Stability Strategy

The basic philosophy of a stability strategy is maintaining the present course of action and be stable It is a strategy which looks for status quo. In the stability strategy, the company maintains status quo and continues with channelizing resources to where it has been doing in the past. It thus limits its competitive advantage in the narrowest product-market configuration given the resources and capabilities of the company. The good thing about a stability strategy is that it is safe.

Reasons to Adopt Stability Strategy

Sometimes a stability strategy is preferred by management for various reasons. These are:

1) **Satisfactory Performance:** Management often does not want to change when the performance of the business is satisfactory. This familiarity often leads to a state where additional risk is not taken. Management is also not aware how the success is being achieved or what combination of the resources of the company have led-to its success. In this situation, they would not want to change the way things are being done and instead continue with the past.

2) **Minor Environmental Change:** There is no major threat in the company's external environment. Also there is no big opportunity beckons. In this situation, the company has no incentive to change.

3) **Low risk:** There are often situations in which maintaining **status quo** is less risky than changing the product specifications and market positions. Change is often a very risky and uncertain proposition. The threats in the company's external environment may also not be that damaging and the opportunities not that attractive to warrant change.

4) **Strategic Advantage:** The Company's strategic position may be more suited to the present situation. In other words, its competences and capabilities may be more suited to the present situation. In this position, it does not make sense to change.

TYPES OF STABILTY STRATEGY

There are basically three types of stability strategies

(C) RETERENCHMENT STRATEGY

Retrenchment is a corporate strategy that aims to decrease the scale of operations of the company. It can also involve cutting down the expenditure of the company so that it becomes financially viable. It can involve reducing the number of product lines or businesses, withdrawing from certain geographical markets so that the company becomes financially sustainable. For example, HUL has reduced the number of brands in its portfolio in the past so that the resulting "power brands" contribute more meaningfully to the company's profitability. A retrenchment strategy often helps the company from making a turnaround, as all the unprofitable businesses are pruned and removed.

Reasons to adopt retrenchment Strategy

The reasons for adopting retrenchment strategy are as follows:

1) **Poor Performance:** When the performance of the company is not satisfactory and it is incurring losses then it makes sense to close down the business lines or centers which are not adding value and are acting as performance laggards in the company.
2) **Threat to Survival:** When the performance of the company is hampered by sudden activities in its product markets then the company may often shut down some of its operation. Many a times such a strategy is also forced by the company's shareholders.

3) **Redeployment of Resources:** Sometimes excellent investment opportunities exist elsewhere and the company may be forced to cut down its operations in the existing business and redeploy the resources released to more productive areas.

4) **Inadequate Resources:** The Company may also be in the need of financial resources to sustain its existing market positions. The company may not have the requisite funds for this and may be forced to hive off unproductive areas of its business so that it may redeploy the resources.

5) **For Securing better Management and Improved Efficienc**y: A company sometimes expands into too many areas. This affects its operational efficiency as it becomes unmanageable. A strategy of retrenchment allows the company to become a manageable size by simplifying its product portfolio.

(D) COMBINATION STRATEGY

A combination strategy is said to be employed by a company when it tries to achieve several business objectives with the aid of a single strategy. Business strategies usually involve objectives like growth, consolidation or stability. Some business strategies can be combined like offering differentiated products in a niche market and growth. Combination strategies are aimed at improving the competitive position of a company in the industry.

Combination strategy is by itself a combination of several strategies - stability, growth, retrenchment. This is because individual business units in a company have different products at different stages of the product life cycle and each are facing different problems. The combination strategies can be of the following types:

1) Stability in some part of the business and growth in another.
2) Stability in some business and retrenchment in some other part.

3) Growth in some businesses and retrenchment in another.
4) Stability, growth and retrenchment in various businesses.

Reasons to Adopt Combination Strategy

The reason a company adopts a combination strategy is that different business units in a company have different problems and there cannot be a single solution for all of them. The specific reasons to follow a combination strategy are:

1) **Different Products in Different Product Life Cycle:** The different products of a company are in different stages of the product life cycle. For example, products which are in the growth stage require a lot of investment in advertisement and sales promotion because at this stage the company wants more and more customers to try the product.

2) **Business Cycle:** Different divisions and products of the company are also affected differently by the business cycle. This may provide growth opportunities for some businesses and for others it may spell disaster, hence in some businesses the company will go for expansion while in others there will be retrenchment.

3) **Number of Businesses:** Companies sometimes grow so fast that the number of Product and businesses become unmanageable. Hence it makes sense for the management to reduce the number of businesses.

Types of Combination Strategy

Generally the two types of combination strategies are as follows:

1) Simultaneous Combination: This strategy can be used in the following way:

- Divesting a SBU or product line while at the same time adding a SBU or product line; some where else.
- For some products or businesses the company may adopt a turnaround strategy where for other it may adopt a growth strategy
- The company may be harvesting some products whereas for others it may follow a growth strategy.

2) Sequential Combination: This can be used by the company in the following ways:

- At first employing a growth strategy and then switching over to a stability strategy.
- First employing a turnaround strategy and then using the growth strategy once the ground level situation gets better.

Concentration Strategies:

A growth strategy adopted by the company to concentrate by investing more resources in marketing and production of only one primary product or market.

The benefits of the strategy are to build a strong reputation within a market and generate loyalty among the customers. But it has disadvantages because of the nature of shift of the demand of customers due to innovations in technology. This may led to the product becoming obsolete, and also a sudden economic turndown could lead to its failure.

For many firms, concentration strategies are very sensible. These strategies involve trying to compete successfully only within a single industry. McDonald's, Starbucks, and Subway are three firms that have relied heavily on concentration strategies to become dominant players.Concentration strategies involve trying to grow by successfully competing only within a single industry.

There are three concentration strategies:

(a) Market penetration,

(b) Market development, and

(c) Product development.

1. Market Penetration

A firm can use one, two, or all three as part of their efforts to excel within an industry (Ansoff, 1957). Market penetration involves trying to gain additional share of a firm's existing markets using existing products. Often firms will rely on advertising to attract new customers with existing markets.

Nike, for example, features famous athletes in print and television ads designed to take market share within the athletic shoes business from Adidas and other rivals. McDonald's has pursued market penetration in recent years by using Latino themes within some of its advertising. The firm also maintains a Spanish-language website at http://www.meencanta.com; the website's name is the Spanish translation of McDonald's slogan "I'm lovin' it." McDonald's hopes to gain more Latino customers through initiatives such as this website.

2. Market Development

Market development involves taking existing products and trying to sell them within new markets. One way to reach a new market is to enter a new retail channel. Starbucks, for example, has stepped beyond selling coffee beans only in its stores and now sells beans in grocery stores. This enables Starbucks to reach consumers that do not visit its coffeehouses.

Entering new geographic areas is another way to pursue market development. Philadelphia-based Tasty Baking Company has sold its Tastykake snack cakes since 1914 within Pennsylvania and adjoining states. The firm's products have become something of a cult hit among customers, who view the products as much tastier than the snack cakes offered by rivals such as Hostess and Little Debbie. In April 2011, Tastykake was purchased by Flowers Foods, a bakery firm based in Georgia. When it made this acquisition, Flower Foods announced its intention to begin extensively distributing Tastykake's products within the southeastern United States. Displaced Pennsylvanians in the south rejoiced.

3. Product Development

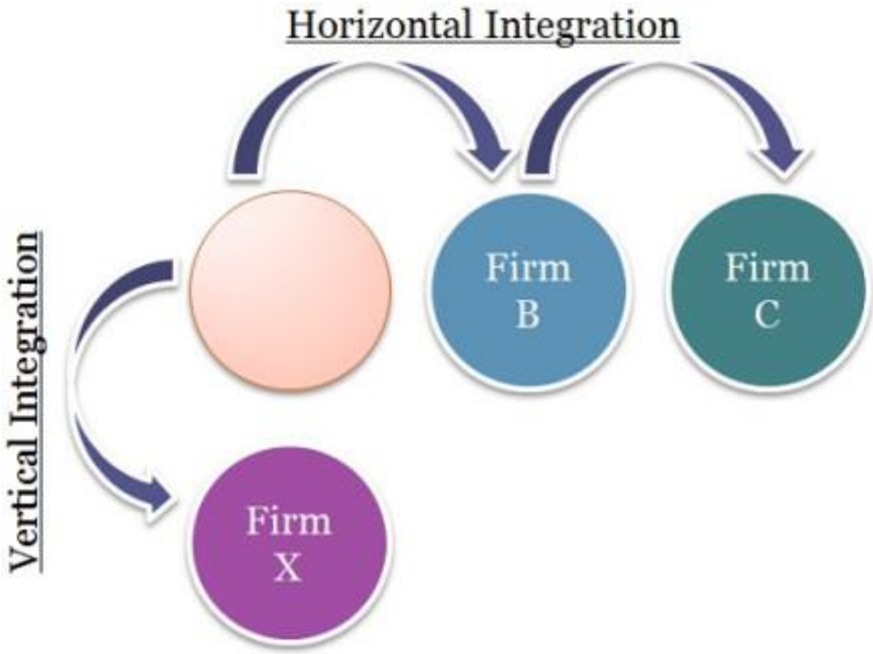
Product development involves creating new products to serve existing markets. In the 1940s, for example, Disney expanded its offerings within the film business by going beyond cartoons and creating movies featuring real actors. More recently, McDonald's has gradually moved more and more of its menu toward healthy items to appeal to customers who are concerned about nutrition.

In 2009, Starbucks introduced VIA, an instant coffee variety that executives hoped would appeal to their customers when they do not have easy access to a Starbucks store or a coffeepot. The soft drink industry is a frequent location of product development efforts. Coca-Cola and Pepsi regularly introduce new varieties—such as Coke Zero and Pepsi Cherry Vanilla—in an attempt to take market share from each other and from their smaller rivals.

Integration Strategies: Horizontal & Vertical

Integration Growth and expansion are the two needs of every firm, irrespective of its size and nature. Firms can grow and expand themselves by way of integration. There are two major forms of integration, i.e. Horizontal Integration and Vertical Integration. **Horizontal Integration** is a kind of business expansion strategy, wherein the company acquires same business line or at the same level of value chain so as to eliminate competition to a greater extent.

Conversely, **Vertical Integration** is used to rule over the entire industry by covering the supply chain. It implies the integration of various entities engaged in different stages of the distribution chain.



Horizontal Integration

The merger of two or more firms, which are engaged in the same line of business and their activity level is also same; then this is known as Horizontal Integration. The product may include complementary product, by-product or any other related product, competitive product or entering into the product's repairs, services, and maintenance section.

Horizontal Integration reduces competition between firms in the market, as if the producers of the product get combined they can create a monopoly. However, it can also create an oligopoly if there are still some independent manufacturers in the market.

It is a tactic used by most of the companies to expand its size and achieve economies of scale due to increased production level. This will help the company to approach new customers and market. Moreover, the company can also diversify its products and services.

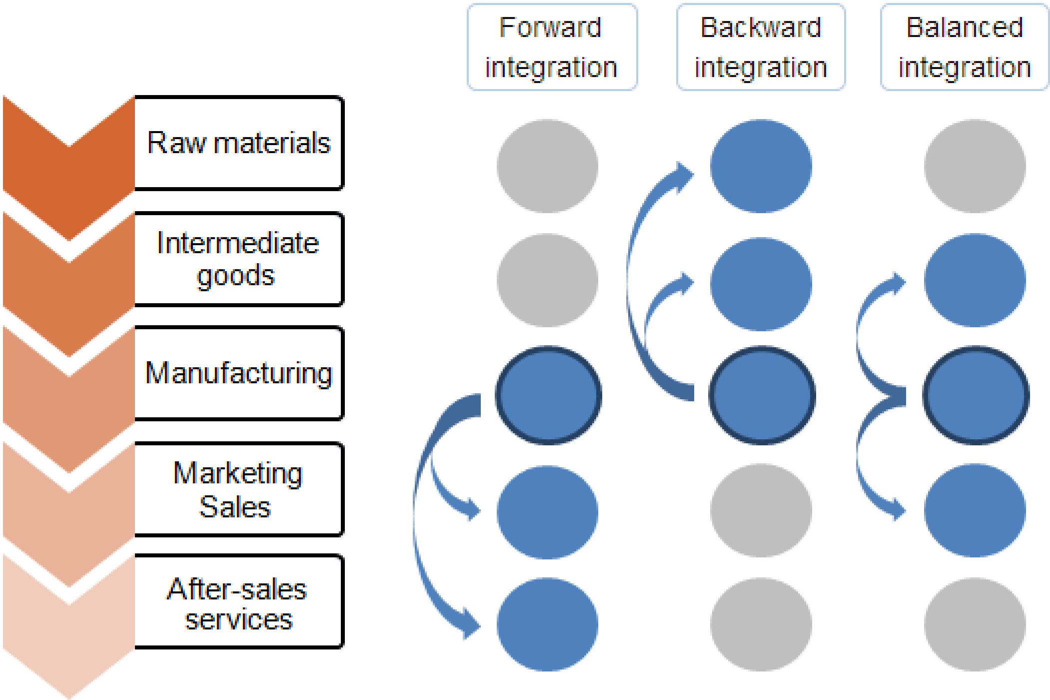
Vertical Integration

Vertical Integration is between two firms that are carrying on business for the same product but at different levels of the production process. The firm opts to continue the business, on the same product line as it was done before integration. It is an expansion strategy used to gain control over the entire industry.

There are two forms of vertical integration, as described below:

Forms of vertical integration

- **Forward Integration**: If the company acquires control over distributors, then it is downstream or forward integration.
- **Backward Integration**: When the company acquires control over its supplier, then it is upstream or backward integration.



The cause of integration is to strengthen the production-distribution chain and to minimize the cost and wastage of products at various levels. The integration also enables the company to keep upstream and downstream profits and eliminate intermediaries.

Apple is the best example of vertical integration; it is the biggest and a renowned manufacturer of smartphones, laptops and so on. It controls the whole production and distribution process itself, from the beginning to the end. Another example of this is Alibaba, a Chinese e-commerce company, that owns the entire system of payment, delivery, search engine and much more.

Key Differences between Horizontal and Vertical Integration

The following are the major differences between horizontal and vertical integration:

1. Horizontal Integration occurs between two firms whose product and production level are same. Vertical Integration is an integration of two firms that operates in different stages of the manufacturing process.
2. Horizontal Integration aims at increasing the size of business and scale of production, whereas Vertical Integration focuses on strengthening and smoothening its production-distribution process.
3. The greatest advantage of horizontal integration is that it eliminates competition between firms, which ultimately extends the market share of the company.

Conversely, Vertical Integration results in lowering the cost of production and wastage.

4. Horizontal Integration only brings synergy, but not self-sufficiency while Vertical Integration helps the company gain synergy with self-sufficiency.
5. Horizontal Integration helps to acquire control over the market, but Vertical Integration is a strategy used for gaining control over the whole industry.

Example

Horizontal Integration

Integration of Exxon and Mobil, oil companies to increase market dominance is an example of Horizontal Integration.

Vertical Integration

Firms like Mafatlal, National Textile Corporation, etc have opened up retails stores owned by them, in order to have an effective control over distribution activities.

Diversification: Related & Unrelated

Diversification is the art of entering product markets different from those in which the firm is currently engaged in. It is helpful to divide diversification into **'related'** diversification and **'unrelated'** diversification.

A related diversification is one in which the two involved businesses have meaningful commonalties, which provide the potential to generate economies of scale or synergies based upon the exchange of skills or resources. In a related diversification the resulting combined business should be able to achieve improved ROI because of increased revenues, decreased costs, or reduced investment, which are attributable to the commonalties.

An important issue in any diversification decision is whether, in fact, there is a real and meaningful area of commonality that will benefit the ultimate ROI. If such a meaningful commonality is lacking, the diversification may still be justifiable, but the rationale will need to be different.

Related diversification

1. **Exchanging skill and resources**

Related diversification provides the potential to attain synergies by the exchanged or sharing of skills or resources. One business unit must have skills or resources that are 'exportable' to another company or business unit. Thus, a first condition for successful related diversification is to identify skills or resources that are exportable or that are needed and can be 'imported!

The second condition is to find a partner or business unit that can either provide or use them. The third is to ascertain whether the organizational integration needed to accomplish the exchange is feasible. Skills or resources that can be usefully imported or exported can take a variety of forms.

2. **Brand name**

One commonly found resource that is exportable is a strong established brand name like Coca-Cola, Microsoft, Pepsi, Puma, BMW, or Nivea.

3. **Marketing skills**

Usually a firm will either possess or lack a strong skill in marketing for a particular market. Thus, a frequent motive to diversify is to export or import a marketing talent. The typical case in this regard is the introduction of Microsoft products into the People's Republic of China (PRC). PRC was moving from the socialistic pattern of society to market economy.

During the 1990s, urbanization started increasing and a shift was seen from agriculture to the service sector. Agriculture, science and technology, industry and defence were targeted for modernization. Richard Fade, vice-president in charge of Microsoft's Far-east operations, pondered Microsoft's planned introduction of products into China.

In the Chinese computer hardware industry of 36 domestic vendors accounted for 82 per cent of the units of domestically manufactured PCs. In the software industry, State Owned Enterprises (SOEs) dominated the market. Since, the SOEs were answerable to the government, all their revenues accrued directly to national government.

The following are the key tasks that need to be done while localizing:

(i) The local character sets need to be supported.

(ii) The interface needs to be translated in a form that is familiar to the local user.

(iii) All documents should be in local language.

(iv) Configure the software so that it can support locally available software and hardware.

(v) Provide local customer service.

Microsoft in 1984 signed its first OEM agreement in Taiwan, home of over 3,000 PC systems and component manufacturers, before opening an office in 1989. Five years later Microsoft opened an office in China. It was estimated that 95 per cent of PCs had the English version of Microsoft DOS installed together with one of the many Chinese shells.

Microsoft had worked with SV earlier on a smaller project and so it agreed to work with them on P-DOS project. Based on their earlier experience, it was understood that it was very difficult to parcel out a particular major software localization task to one SV and hence opted for a ‘consortia’ of SVs and set UP a product development centre. This eventually paid the company a ‘prize reward’ by limiting other competitors in the market.

4. **Service**

A small company can often create or enter a market area and do well with an innovative product. As the market matures, however, the necessity for a strong service organization becomes important. The smaller firm might then consider joining forces with a larger firm which has a service organization that can be adapted to the involved product. Typical example is the Bluetooth technology of Blackberry.

5. **R&D and product development**

A firm may be highly skilled at R&D and new product development, but it may lack skills in either marketing or production. Godrej is marketing the mosquito repellent Good knight and mango juice Jumpin, which are typical products of small entrepreneurs. Sun silk shampoo of HUL is manufactured in SSI units of Pondicherry.

6. **Exploiting excess capacity**

One type of resources that is often easily exchanged is excess capacity. Bottling plants of SDC (Soft Drink Concentrates) are now widely engaged in bottling fresh juices of orange, apple, mango, pineapple, grapes, tender coconut and lemon juice for MNCs Pepsi and Coke in India.

7. **Achieving economies of scale**

Related diversification can sometimes provide economies of scale. Two smaller consumer product firms, for example, may not be able to afford an effective sales force, new product development or testing programme, or warehousing and logistics systems. However, the two firms together may be able to operate at an efficient level. Similarly, two firms when combined may be able to justify an expensive piece of automated production equipment.

8. **Risks of related diversification**

Even related diversification can be risky. There are three major problems. First, relatedness and potential synergy simply don’t exist. Strategists delude themselves that there is a synergistic justification not on the basis of judgement supported by a thorough external and self-analysis, but by manipulating semantics.

Second, potential synergy may exist but is never realized because of implementation problems. This happens when the diversification move involves integrating two organizations that have fundamental differences and/or because one of the two organizations lacks the ability or motivation to undertake necessary programmes to make the diversification work.

Third, possible violations of antitrust laws in the west and MRTP (Monopolies and Restrictive Trade Practice) law in India create an additional risk when an acquisition or merger is involved. Ironically, as the degree of relatedness and the synergy potential increase so does the possibility of an antitrust or MRTP problem. Jet Airways and Sahara deal is a typical example.

Jet Airways has extended its service to the mass market under Jet Lite. Similarly, Kingfisher acquired Air Deccan and symbolically kept the Kingfisher logo in the wings and POS outlets in the country, which includes all post offices and petrol pumps.

Unrelated Diversification

Unrelated diversification lacks commonality in markets, distribution channels, production technology, and R&D thrust to provide the opportunity for synergy through the exchange or sharing of assets or skills. Reliance entered into retailing by allocating Rs25, 000 crore in a phased manner is a typical example.

1. **Manage and allocate cash flow**

Unrelated diversification can balance the cash flows of SBU entities. A firm, which has many SBUs that merit investment might buy or merge with a cash cow to provide a source of cash. The acquisition of the cash cow may reduce the need to raise debt or equity over time, although if the cash cow is acquired, resources will need to be expected.

Typical example is Kingfisher Airlines, where the chairman and CEO Vijay Mallya himself routed the surplus cash from this liquor business to give the 'Fly the good times' experience to Indian aviation. So there's KF Fun TV with seven channels (lifestyle, entertainment, sports, English premium, toon (cartoon), flight guide and view from the top channels, and KF Radio with 10 channels chartbusters and hindi pop, hindi retro (the golden oldies), Hindi Easy Listening, ghazals, english pop, english retro (an earful of vintage), Easy Listening (Honey trenched notes that remind the listener that world is still a wonderful place), Club (dance floor) Jazz and Blues and Lounge (lie back in the lap of lounge with the soothing notes of lounge music) supported with state of the art aircraft and technology for in-flight, catering. The reservation system is a remarkable attempt to reposition the image of the Indian industry.

2. **Entering business areas with high ROI prospects**

A basic diversification motivation is to improve ROI by moving into business areas with high ROI prospects. One approach is to enter high growth business areas. According to life style consumption study by Edelweiss Securities, organized retail trade in India is now finding its feet. Its share in the total retail pie is set to increase from the current 2 per cent to about 10 per cent by 2010. This will translate into approximately Rs1, 400 billion of retail trade by 2010 (Figure 8.19).

The study further says retail space is expected to increase from 10 million sq. ft. in 2002 to 80 million sq. ft. in 2010. Retail space development in leading centres will provide high impetus to retail growth as about 38 per cent of India's high income households live in the top five cities (Mumbai, Delhi, Kolkata, Chennai and Bangalore), and an additional 28 per cent stay in mid-sized cities.

Significant growth in organized retailing during the next three years is expected in the metros and mini-metros through better performance of the existing stores, as well as opening of new stores. From 25 operational malls in 2003, the country is expecting over 600 malls by 2010. Accordingly Videocon Industries spotted organized retailing as the bright spot for future investments to the tune of Rs25, 000 crore by 2010.

3. **Obtaining a 'bargain' price for a business**

   Another way to improve the ROI is to acquire a business at a 'bargain' price so the involved investment is low and the associated ROI is therefore high.

4. **The potential to restructure a firm**

   Allen, Oliver, and Schwallie, three Booz Allen acquisition specialists have suggested another possibility: that an acquisition can provide the basis for a restructuring of the acquired firm, the acquiring firm, or both.

5. **Reducing risk**

   The reduction of risk can be another motivation for unrelated diversification. The heavy reliance upon a single product line can stimulate a diversification move. Reducing risk can also lead to entering into businesses that will counter or reduce the cyclical nature of the existing earnings.

6. **Risks of unrelated diversification**

   The very concept of an unrelated business, where by definition there is no possibility to improve that business through synergy, suggests risk and difficulty. Many knowledgeable people have made blanket statements warning against unrelated diversification. Peter Drucker claims that all successful diversification requires a common core or unity represented by common markets, technology, or production processes. He states that without such a unity, diversification can never work; financial ties alone are insufficient.

Internationalization

Internalization has been of great interest to nearly every company. There is no single and universally accepted definition of internationalization but from an economics point of view, it is defined as the process where business gets more involved in the international markets. In the contemporary world, businesses begin their operations domestically but must draw up a long-term plan on how the business will be going international. Internationalization phenomenon has significantly changed the landscape for most business resulting to a very dynamic market situation with severe competition for the companies.

The reason behind going for international market varies from one company to another. However, most firms pursue internationalization because domestic market has become inadequate because of the economies of scale and multiple opportunities that are available in the foreign markets. Most successful executives will always want to try another market after any successful one.

Internationalization has been one of the strategies being used by most executives to reduce the cost of operations. Businesses with overhead costs can have the excess cost cut down in countries that have relatively deflated currencies as well as low cost of living. Most business in the United States finds it relatively cheaper operating in countries that have free trade arrangement with U.S.

One way in which internationalization help companies reduce the cost of doing is business is through reduced labor costs. Companies that are interested in going international usually look for those markets that have a low cost of leaving as that makes it cheaper hiring employees in such countries. There are those companies that consider going international when in the financial crisis. Executives of companies that are experiencing a financial crisis in the domestic market will formulate the budget and go for the foreign markets. Institutions are commonly defined as humanly made constraints the give economic, social interactions and political shape. The institution can also be looked at as a wide range of structures that widely affect contract enforcement, protection of investors, economic outcome, property rights, and even political system.

Institutions play a very crucial role in the market economy. The main aim of institutions is to ensure that there is effective functioning of the market mechanism. This sees to it that those firms that take part in the market can carry out their transactions without suffering undue loss or being exposed to risk. Some of the reason behind the popularity of internationalization among current companies include opening up of trade borders by most countries across the world, elimination of trade barriers among many others.

Companies are no longer secure staying in the domestic market and therefore most companies tend to go for internationalization to be able to spread their risks. Internationalization has become much easier due to the communication and technological advancement. Communication and technological advancement are vital in ensuring that foreign businesses are properly and timely operated without experiencing problems. Internationalization is achieved through very different ways.

There are those companies that take part through exporting their products to foreign countries and continue to strengthen their home market. Some adopt a highly aggressive approach which includes acquiring firms, coming up with alliances, embrace joint venture or just establish their subsidiary. All these entry strategies differ in regards to the risk associated with each, control, level of resource commitment and return on investment that internationalization promises.

There are many entry modes that companies can use to join foreign markets but all these modes can be categorized in two broad modes. The first mode is the non-equity mode, which comprises of export and contractual agreements. The second mode is referred to equity mode of entry, which is known to include wholly owned subsidies and joint ventures. From all the available market entry, the one that offers the lowest risk level and the lowest market control is the export and import.

The one with the highest risk level but highest market control is considered to be expected return on investment. The expected return on investment is majorly connected with a direct investment such as acquisition as well as Greenfield investments. Export and importing is the most common strategy that most firms use to pursue internationalization. Export is known as the process of selling services and goods to countries other than the domestic one. The company can directly be involved in the export or use an agent.

The other strategy that is equally popular is licensing. International licensing firms are known to give out licensee patent rights, copyrights, trademark rights, or even know-how on processes and products. Licensee does a production of licensor's products, marketing it within the assigned territory and payment of licensor's fee together with sales-related royalties in return. This strategy is mostly welcome by foreign public authorities as it is the way through which technology is leaked into the country.

Reasons for entering International Markets

Internationalization is more of an expansion of business from its home market into foreign markets. The decision to internationalize is one of the strategic decisions that have a fundamental effect on any firm and all its internal and external operations. It equally affects the management of the company.

In the current world, the rate at which companies operate outside their domestic market has significantly increased. Even though internationalization has become a very popular thing amongst many companies around the world, it is highly important for every company to consider their motives for going international. There are multiple reasons why companies consider going international.

The most common reason for going international is the need for pursuing potential abroad and the desire to diversify risk. Most companies consider expanding their product line in the foreign market when launching a new product. Companies like Coca-Cola had only to introduce bottled water after going to nearly every country in the world. In most cases domestic competition grows so fierce to the extent that companies consider foreign markets so attracting.

It explains why Ford which was second after General Motors in United States market became internationalized much faster compared to General Motors. Most of the Chinese firms are considering internationalization due to intense competition in china's market. The other good reason for going to a foreign market is to avoid the risk that comes with operating in a single market.

Most firms go international with an aim of diversifying risk. With an alternative market in a foreign land can be greatly of help in offsetting negative results various uncertainties such as economic downturns or political intolerance. Starbuck's is a good example of companies that enjoyed the advantages of going international during U.S. recession, which significantly devastated sales within the home market. Foreign market covered company loses through the overwhelming performance overseas.

Many other companies consider going international to achieve a different growth rate. Different markets have different growth rate and most companies in slow-growth countries will always consider internationalization with an aim of going to countries with faster growth rate. Companies operating in the food industry have varied growth rate from one market to another. The variations come when some countries experience maturity in say food production. Such companies will; look for countries whose markets are still at the advancing stage.

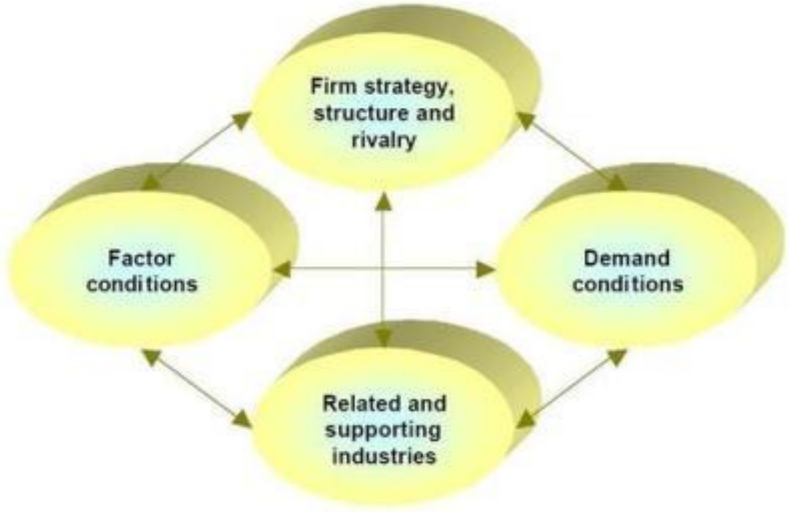
Besides major reasons that attribute to profitability, companies equally consider going international not to gain financially but to gain knowledge. There are so many firms that have entered the international market to find out what need to be changed from the existing product to make it acceptable globally. Government incentives also promote internationalization.

There are those companies that consider going overseas not for growth, not because of competition in the domestic market but because the government gives them incentives to export some of the local products. Through government incentives, most companies have managed to access markets that they would have not accessed. So many countries such as the United States provide its companies with a wealth of help to start the business of exporting products to foreign countries.

Porters Model of Competitive Advantage of Nations

Increasingly, corporate strategies have to be seen in a global context. Even if an organization does not plan to import or to export directly, management has to look at an international business environment, in which actions of competitors, buyers, sellers, new entrants of providers of substitutes may influence the domestic market. Information technology is reinforcing this trend.

Michael Porter introduced a model that allows analyzing why some nations are more competitive than others are, and why some industries within nations are more competitive than others are, in his book The Competitive Advantage of Nations. This model of determining factors of national advantage has become known as Porters Diamond. It suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition. Porter distinguishes four determinants:



Factor Conditions

The situation in a country regarding production factors, like skilled labor, infrastructure, etc., which are relevant for competition in particular industries. These factors can be grouped into human resources (qualification level, cost of labor, commitment etc.), material resources (natural resources, vegetation, space etc.), knowledge resources, capital resources, and infrastructure. They also include factors like quality of research on universities, deregulation of labor markets, or liquidity of national stock markets. These national factors often provide initial advantages, which are subsequently built upon. Each country has its own particular set of factor conditions; hence, in each country will develop those industries for which the particular set of factor conditions is optimal.

This explains the existence of so-called lowcost-countries (low costs of labor), agricultural countries (large countries with fertile soil), or the start-up culture in the United States (well developed venture capital market). Porter points out that these factors are not necessarily nature-made or inherited. They may develop and change. Political initiatives, technological progress or socio-cultural changes, for instance, may shape national factor conditions. A good example is the discussion on the ethics of genetic engineering and cloning that will influence knowledge capital in this field in North America and Europe.

One internationally successful industry may lead to advantages in other related or supporting industries. Competitive supplying industries will reinforce innovation and internationalization in industries at later stages in the value system. Besides suppliers, related industries are of importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products (e.g. hardware and software).

A typical example is the shoe and leather industry in Italy. Italy is not only successful with shoes and leather, but with related products and services such as leather working machinery, design, etc.

Home Demand Conditions

Describes the state of home demand for products and services produced in a country. Home demand conditions influence the shaping of particular factor conditions. They have impact on the pace and direction of innovation and product development. According to Porter, home demand is determined by three major characteristics: their mixture (the mix of customers needs and wants), their scope and growth rate, and the mechanisms that transmit domestic preferences to foreign markets. Porter states that a country can achieve national advantages in an industry or market segment, if home demand provides clearer and earlier signals of demand trends to domestic suppliers than to foreign competitors. Normally, home markets have a much higher influence on an organization’s ability to recognize customers’ needs than foreign markets do.

Related and Supporting Industries

The existence or non-existence of internationally competitive supplying industries and supporting industries. One internationally successful industry may lead to advantages in other related or supporting industries. Competitive supplying industries will reinforce innovation and internationalization in industries at later stages in the value system. Besides suppliers, related industries are of importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products (e.g. hardware and software).

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Firm Strategy, Structure, and Rivalry

The conditions in a country that determine how companies are established, are organized and are managed, and that determine the characteristics of domestic competition Here, cultural aspects play an important role. In different nations, factors like management structures, working morale, or interactions between companies are shaped differently.

This will provide advantages and disadvantages for particular industries. Typical corporate objectives in relation to patterns of commitment among workforce are of special importance. They are heavily influenced by structures of ownership and control. Family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies. Porter argues that domestic rivalry and the search for competitive advantage within a nation can help provide organizations with bases for achieving such advantage on a more global scale.

Porters Diamond has been used in various ways

Organizations may use the model to identify the extent to which they can build on home based advantages to create competitive advantage in relation to others on a global front. On national level, governments can (and should) consider the policies that they should follow to establish national advantages, which enable industries in their country to develop a strong competitive position globally. According to Porter, governments can foster such advantages by ensuring high expectations of product performance, safety or environmental standards, or encouraging vertical co-operation between suppliers and buyers on a domestic level etc.

Cooperative: Mergers & Acquisition Strategies

Mergers and acquisitions, or M&A for short, involves the process of combining two companies into one. The goal of combining two or more businesses is to try and achieve synergy – where the whole (new company) is greater than the sum of its parts (the former two separate entities).

Mergers occur when two companies join forces. Such transactions typically happen between two businesses that are about the same size and which recognize advantages the other offers in terms of increasing sales, efficiencies, and capabilities. The terms of the merger are often fairly friendly and mutually agreed to and the two companies become equal partners in the new venture.

Acquisitions occur when one company buys another company and folds it into its operations. Sometimes the purchase is friendly and sometimes it is hostile, depending on whether the company being acquired believes it is better off as an operating unit of a larger venture.

The end result of both processes is the same, but the relationship between the two companies differs based on whether a merger or acquisition occurred.

Merger and acquisition are the corporate strategies that deal with buying, selling or combining different companies with a goal to achieve rapid growth. However, the decisions on mergers and acquisitions are taken after considering a few facts like the current business status of the companies, the present market scenario, and the threats and opportunities etc. In fact, the success of mergers and acquisitions largely depend upon the merger and acquisition strategies adopted by the organizations.

Merger and acquisition strategies are the roadmap for the corporate development efforts of an organization. The strategies on merger and acquisition are devised to transform the strategic business plan of the organization to a list of target acquisition prospects. The merger and acquisition strategies offer a framework, which evaluates acquisition candidates and helps the organization to identify the suitable ones.

Many big companies continuously look out for potential companies, preferably smaller ones, for mergers and acquisitions. Some companies may have their core cells, which concentrate on mergers and acquisitions. Merger and acquisition strategies are devised in accordance with the policy of the organization. Some may prefer to diversify or to expand in a specific field of business, while some others may wish to strengthen their research facilities etc.

Merger and Acquisition Strategy Process

The merger and acquisition strategies may differ from company to company and also depend a lot on the policy of the respective organization. However, merger and acquisition strategies have got some distinct process, based on which, the strategies are devised.

(i) Determine Business Plan Drivers

Merger and acquisition strategies are deduced from the strategic business plan of the organization. So, in merger and acquisition strategies, you firstly need to find out the way to accelerate your strategic business plan through the M&A. You need to transform the strategic business plan of your organization into a set of drivers, which your merger and acquisition strategies would address.

While chalking out strategies, you need to consider the points like the markets of your intended business, the market share that you are eyeing for in each market, the products and technologies that you would require, the geographic locations where you would operate your business in, the skills and resources that you would require, the financial targets, and the risk amount etc.

(ii) Determine Acquisition Financing Constraints

Now, you need to find out if there are any financial constraints for supporting the acquisition. Funds for acquisitions may come through various ways like cash, debt, public and private equities, PIPEs, minority investments, earn outs etc. You need to consider a few facts like the availability of untapped credit facilities, surplus cash, or untapped equity, the amount of new equity and new debt that your organization can raise etc. You also need to calculate the amount of returns that you must achieve.

(iii) Develop Acquisition Candidate List

Now you have to identify the specific companies (private and public) that you are eyeing for acquisition. You can identify those by market research, public stock research, referrals from board members, investment bankers, investors and attorneys, and even recommendations from your employees. You also need to develop summary profile for every company.

(iv) Build Preliminary Valuation Models

This stage is to calculate the initial estimated acquisition cost, the estimated returns etc. Many organizations have their own formats for presenting preliminary valuation.

(v) Rate/Rank Acquisition Candidates

Rate or rank the acquisition candidates according to their impact on business and feasibility of closing the deal. This process will help you in understanding the relative impacts of the acquisitions.

(vi) Review and Approve the Strategy

This is the time to review and approve your merger and acquisition strategies. You need to find out whether all the critical stakeholders like board members, investors etc. agree with it or not. If everyone gives their nods on the strategies, you can go ahead with the merger or acquisition.

There are many types of business combinations known as mergers:

Conglomerate Mergers: A conglomerate merger involves the procurement of a dissimilar business. The acquired firm is usually one of many under the corporate umbrella of the acquiring firm and is perceived as providing profitable diversification. Since the two firms are unrelated in product or service, internal changes to the acquired firm, which will remain relatively autonomous, are likely to be minimal, and there will be few cultural consequences. Occasionally the acquiring firm will send a new team from headquarters to manage the unit (Nahavandi and Malekzadeh 1993), which will cause conflict among the senior executives of the acquired firm and may result in a higher quit rate among its employees and feelings of insecurity and instability. Despite these problems, 'conglomerate takeovers tend to be the most benign of all the sources of cultural change' (Walter 1985).

Vertical Mergers: In this category of merger, a firm purchases one of its suppliers or merges with one of its customers. Because an acquired firm generally falls under the acquiring firm's corporate umbrella, most of the interaction between the two firms is at the corporate level. The level of complexity at the corporate level increases, as do the rules governing the acquired corporation, which faces a reduction in self-determination. This leads to the demotion of subsidiary executives to middle management (Walter, 1985), which often leads, in turn, to a higher level of executive turnover, particularly if 'the executives of the acquired firm are treated as if they have been conquered, causing them to feel inferior and experience a loss of social standing' (Nord 1994).

Horizontal Mergers: In horizontal mergers, one firm acquires another company whose product or service is closely related or of the same type (Nahavandi and Malekzadeh 1993). An example of a horizontal merger is that of two soft drink companies. The firms are competitors producing similar products. The main aim of a horizontal merger is to increase revenue by offering an additional range of products to existing customers.

Market Extension Merger: A market extension merger specifies a merger of two firms that manufacture the same or identical products but they sell it in completely different markets. For example, a local or domestic software developing company is taken over by a multinational software developing company. Product-Extension Merger: A product-extension merger designates a merger of firms that do not manufacture the same goods but they manufacture goods that fall in the same category. For example, if a company manufacturing laptops overtakes a company that manufactures 'portable hard disks' or 'flash drives', then this would be termed as a product-extension merger. Here the laptop and the portable hard disk are two different products but they both come under the category of computers. Concentric Mergers: Concentric mergers take place between two firms with highly similar production or distributional technologies (Walter 1985). In this type of merger, mergers occurs between firms that serve the same customers in a particular industry, but they do not offer the same products and services. Their products may be complements, product which go together, but technically not the same products.

Joint Venture

Joint Venture may be defined as a combination of two or more firms, which set up a separate legal entity, which indicates the capital and interests of the two parties. In finer terms, when two or more firms, invest funds for forming a jointly owned new company is known as a joint venture.

The parties to the joint venture, contribute their resources, competencies, skills, technology, in a definite proportion and share the revenues, expenses and company’s control. The four basic reasons for entering into such a strategic alliance is:

- Learning partner’s skills.
- Upgrading and improving skills
- Seeking vertical integration
- Shaping future industry evolution

A joint venture may result in pooling of resources, massive leverage, lower risk, optimum utilisation of resources, high profits, etc.

Joint Venture (JV) is a cooperative enterprise entered into by two or more business entities for the purpose of a specific project or other business activity. The reason for a joint venture is usually some specific project.

Joint ventures can be informal (a handshake) or formal, and they can be short term or long term. Often the joint venture creates a separate business entity, to which the owners contribute assets, have equity, and agree on how this entity may be managed. The new entity may be a corporation, limited liability company, or partnership.

In other cases, the individual entities retain their individuality and they operate under a joint venture agreement. In any case, the parties in the JV share in the management, profits, and losses, according to a joint venture agreement (contract).

Joint ventures are often entered into for a single purpose – a production or research activity. But they may also be formed for a continuing purpose.

Why Form a Joint Venture?

- **To combine resources.** A bigger entity may have more clout in an industry or more resources to ensure the success of a venture.
- **To combine expertise.** In technical businesses, one company might have expertise in one part of a venture while the second company might have expertise in another part. For example, Company A might be good at creating software, while Company B has experience creating the hardware that's needed for a venture.
- **To save money.** Two companies might consider a joint venture to save money on advertising, maybe at a trade show or in a trade publication.

Examples of Joint Ventures

Joint ventures can combine large and small companies on big and little projects. Here are some examples:

MillerCoors is a joint venture between SABMiller and Molson Coors Brewing Company to see all their beer brands in the U.S. and Puerto Rico.

In 2011, Ford and Toyota agreed to work together to develop hybrid trucks.

Mining and drilling are expensive propositions, and often two companies in these industries will combine as a joint venture to mine or drill in a particular area.

How a Joint Venture Pays Taxes?

When a joint venture is formed, the most common structure is to set up a separate business entity. Then the parties each own a specific percentage of the entity. If the joint venture is a corporation, for example, and two businesses have equal shares in the business, they structure the company so each partner entity has an equal number of shares of company stock and equal management and board of directors members.

The joint venture isn't recognized as a taxing entity by the IRS. So the business form that the joint venture company takes determines how taxes are paid.

If the joint venture is a separate business entity, it pays income taxes and all other taxes like that business form. For example, if the new joint venture company is an LLC, it pays taxes as an LLC.

Because the two parties have decided on how to split profits and losses, they will use that split to decide how each party receives profits, handles losses, and contributes to paying any taxes that are due.

If the joint venture is simply a contractual relationship with an agreement between two independent companies, the terms of the agreement will determine how the joint venture is taxed and how the tax is apportioned between the two entities.

What a Joint Venture is NOT?

A joint venture may have some similarity to a partnership, but it’s not. A partnership is a single business entity formed by two or more people. A joint venture joins several different business entities (each of which may be any type of legal entity) into a new entity, which may or may not be a partnership. Partnership income taxes are paid by the owners individually.

Don’t confuse a JV with a ‘qualified joint venture,’ – a specific taxation form for husbands and wives in partnerships.

You may have heard the term “consortium” used to explain a joint venture. A consortium is a looser arrangement between several different and distinct business entities. A consortium doesn’t create a new entity. In the travel industry, for example, a consortium of travel agencies allow memberships with benefits. The consortium negotiates on behalf of its members for special rates from hotels, resorts, and cruise lines.

The Benefits of Joint Ventures

Any two businesses of any size can work together on a joint project, while still maintaining the rest of their business apart from each other. Some related articles that might give you additional ideas for possible joint ventures.

Strategic Alliance

Strategic Alliance is an arrangement between two or more firms to carry out a number of objectives agreed upon by the entities or to fulfill a critical business requirement while operating as separate organizations. In finer terms, a strategic alliance is a relation that exists amidst two firms, to do business together, which is more than a regular firm to firm dealing, but less than a merger or complete partnership.

The entities involving in the alliance may pool their resources such as products, knowledge, expertise, goodwill, capital, distribution channels and so forth. The entities may maintain their autonomy, while they achieve new opportunity.

The alliance aims at gaining synergy, wherein each party expects that the strength of the alliance will surpass individual efforts. It encompasses transfer of technical know-how, economic specialisation, divide rewards, risk and expense sharing.

Strategic alliances are agreements between two or more independent companies to cooperate in the manufacturing, development, or sale of products and services or other business objectives.

For example, in a strategic alliance, Company A and Company B combine their respective resources, capabilities, and core competencies to generate mutual interests in designing, manufacturing, or distributing of goods or services.

Types of Strategic Alliances

There are three types of strategic alliances: Joint Venture, Equity Strategic Alliance, and Non-equity Strategic Alliance.

(1) Joint Venture

A joint venture is established when the parent companies establish a new child company. For example, Company A and Company B (parent companies) can form a joint venture by creating Company C (Child Company).

In addition, if Company A and Company B each own 50% of the child company, it is defined as a 50-50 Joint Venture. If Company A owns 70% and Company B owns 30%, the joint venture is classified as a Majority-owned Venture.

(2) Equity Strategic Alliance

An equity strategic alliance is created when one company purchases a certain equity percentage of the other company. If Company A purchases 40% of the equity in Company B, an equity strategic alliance would be formed.

(3) Non-equity Strategic Alliance

A non-equity strategic alliance is created when two or more companies sign a contractual relationship to pool their resources and capabilities together.

Reasons for Strategic Alliances

To understand the reasoning for strategic alliances, let us consider three different product life cycles: Slow cycle, Standard cycle, and Fast cycle. The product life cycle is determined by the need to innovate and continually create new products in an industry. For example, the pharmaceutical industry operates a slow product lifecycle, while the software industry operates in a fast product lifecycle. For companies whose product falls in a different product lifecycle, the reasoning for strategic alliances are different:

1. **Slow Cycle**

In a slow cycle, the company's competitive advantages are shielded for relatively long periods of time. The pharmaceutical industry operates in a slow product life cycle as the products are not developed yearly and patents last a long time.

Strategic alliances are formed to gain access to a restricted market, maintain market stability (setting product standards), and establishing a franchise in a new market.

1. **Standard Cycle**

In a standard cycle, the company launches a new product every few years and may or may not be able to maintain their leading position in an industry.

Strategic alliances are formed to gain market share, try to push out other companies, pool resources for large capital projects, establish economies of scale, and gain access to complementary resources.

1. **Fast Cycle**

In a fast cycle, the company's competitive advantages are not protected and companies operating in a fast product lifecycle need to constantly develop new products/services to survive.

Strategic alliances are formed to speed up the development of new goods or services, share R&D expenses, streamline market penetration, and overcome uncertainty.

Challenges in a Strategic Alliance

Although strategic alliances create value, there are many challenges to consider:

- Partners may misrepresent what they bring to the table (lie about competencies that they do not have).
- Partners may fail to commit resources and capabilities to the other partners.
- One partner may commit heavily to the alliance while the other partner does not.
- Partners may fail to use their complementary resources effectively.

Digitalization Strategies:

A Digitalization strategy is a form of strategic management and a business answer or response to a digital question, often best addressed as part of an overall business strategy. A digital strategy is often characterized by the application of new technologies to existing business activity and/or a focus on the enablement of new digital capabilities to their business (such as those created by the Information Age and often as a result of advancements in digital technologies such as computers, data, telecommunications, Internet, etc.). As is the case with its business strategy parent, a digital strategy can be formulated and implemented through a variety of different approaches.

Formulation often includes the process of specifying an organization's vision, goals, opportunities and related activities in order to maximize the business benefits of digital initiatives to an organization. These can range from an enterprise focus, which considers the broader opportunities and risks digital can create and often includes customer intelligence, collaboration, new product/market exploration, sales and service optimization, enterprise technology architectures and processes, innovation and governance; to more marketing and customer-focused efforts such as web sites, mobile, ecommerce, social, site and search engine optimization, and advertising.

The digital strategy is part of the business strategy and experts maintain that it cannot be effective or successful if built independently. It is argued that it represents how the business strategy is influenced by leveraging digital resources to create differential value. In the process, it reshapes traditional organizational strategies into modular, distributed, cross-functional, and global business processes.

There, are numerous approaches to conducting digital strategy, but at their core, all go through four steps:

- Identifying the opportunities and/or challenges in a business where online assets can provide a solution;
- Identifying the unmet needs and goals of the external stakeholders that most closely align with those key business opportunities and/or challenges;
- Developing a vision around how the online assets will fulfill those business and external stakeholder needs, goals, opportunities and challenges, and
- Prioritizing a set of online initiatives which can deliver on this vision.

UNIT-4

Strategy Choice and Analysis: Scenario Analysis Process, Tools & Techniques of strategic Analysis: BCG Matrix, Ansoff Grid, GE Nine Cell Planning Grid, McKinsey's 7'S framework. Case Studies and Latest Updates. Strategy implementation: Developing Programs, Budget and Procedures, Stages of Corporate Development, Organizational Life cycle, Organizational Structures: Matrix, Network & Modular/Cellular; Reengineering and Strategy implementation, Leadership and corporate culture.

THE CONCEPT OF STRATEGIC ANALYSIS

Strategic analysis enables the firm to recognize its strategic position in the internal and external corporate environment. It also involves the analysis of stakeholder's demands and expectations. The environment in which the company operates plays an important role in making of strategic choices. The basic purpose of strategic analysis is to generate strategic alternatives for the organization to gain competitive advantage by formulating and offering superior value to its stakeholders.

While formulating the strategy, a firm must have sufficient knowledge of the following aspects:

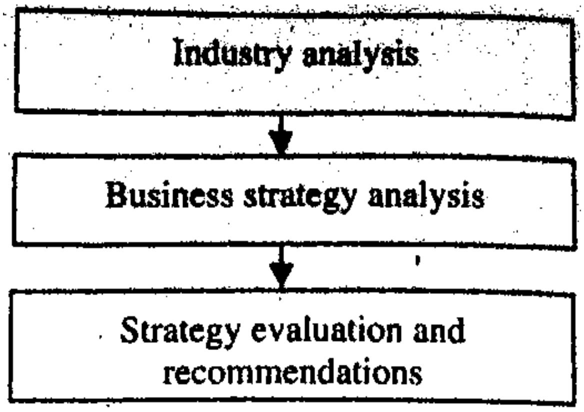
1) Customers: This area comprises of existing customers, prospective customers and several market segments. Here, the firm needs to answer the questions regarding: What are their needs? How can their needs be fulfilled? Which categories of customers are most profitable?

2) Capability: capability can be in the form of skills, knowledge and relationships. What is one's area of expertise? What are one's capabilities? What liabilities does one have? What are the avenues of making money?

3) Competition: It covers all the areas of competition from regulation to real life. What is the basis of competition? From where the threats can arise? Which market segments are under pressure and where is the company better placed?

These three aspects of strategic analysis are interconnected with each other. The type of target customers chosen by a company determines the competencies required and the competition level that it is likely to face. All this will directly influence the target customers.

Process of Strategic Analysis: - Strategic analysis involves the following steps:



Process of Strategic Analysis

1. **Industry Analysis: - Define the Business** There four elements which are considered as a basis for identifying and evaluating the industry. The scope of industry analysis, States boundaries of the business, i.e. the products and markets, once the business segment is analyzed, the next element is to recognize the competencies that are required to operate in the segment and also the competitors that are capable enough to target the same business segment.

2) Business Strategy Analysis: Business strategy analysis involves the following:

- **Identify Strategic Goals:** The strategic goals of a firm determine the business strategy and list the key success factors of the industry. Many times, the strategic goals also encompass the mission and vision statement of the firm.

- **Define Business Strategy:** The business strategy can be explained by analyzing six areas. The firs area is the product-market strategy. The competencies that are required in formulating a product-market strategy include technology, processes and the market reach which the firm possesses.

- **Identify Internal Capabilities and Skills:** The implementation of firm's business strategy is based on the firm's internal functions and processes that support the strategy.

- **Strategic Performance:** The strategic performance of a firm can be determined by the success or failure of business strategy. If a firm has a powerful business strategy then it will define the key success factors and also govern its performance.

Benefits of Strategic Analysis:

The various benefits of strategic analysis are as follow:

1) Sustainability: If the organisation wants to survive for a long time in the marketplace then it needs to have a long-term plan.

2) Funding: The strategic analysis process establishes the company's feasibility, significance and also helps in increasing the credibility of the company. Therefore, the funds applied in the company have high probability of making profits.

3) Whole Organisation Approach: By analyzing the external environment, the organisation is able to develop a holistic perspective. It also ascertains the environmental factors which will favorably affect the organisation and its strategies.

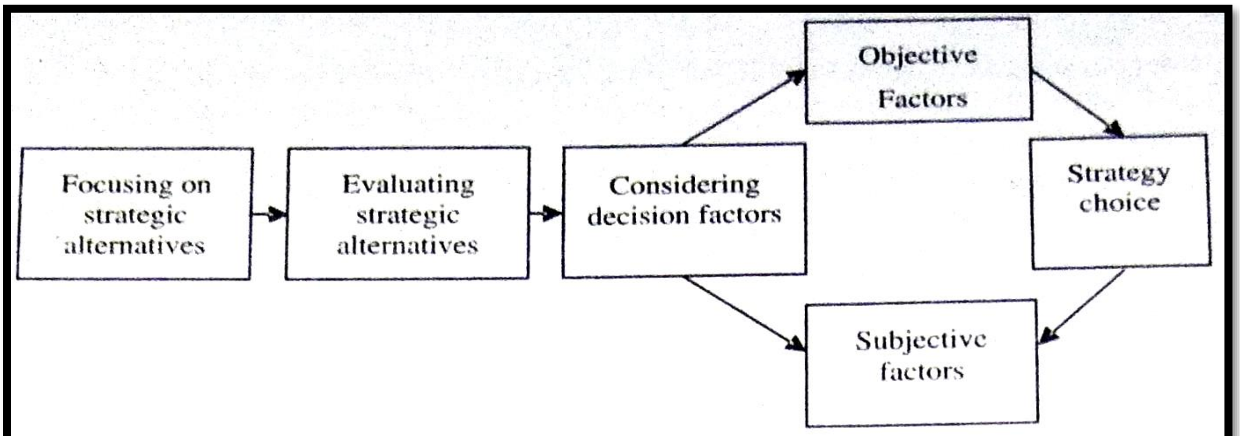
4) Sound Goals: It is a difficult task to set right goals of an organisation. The strategic analysis process assists the organizations to make right decisions which prove to be beneficial for them.

5) External Focus: Along with the internal focus, it is essential for the organization to focus on the external factors. This enables the organization to grab the opportunities and abandon threats.

6) Clear Expectations: All the shareholders of the organization ensure that strategy is appropriate and is implemented successfully.

Strategy Evaluation and Recommendations: The strategic analysis is applied to evaluate the effectiveness of firm's business strategy which is used to serve the market requirements. Once the evaluation of industry and business strategy is done, the firm can pursue different ways to improve its strategic performance.

Process of Strategic Choice: - Choosing the correct strategy requires effective decision making consisting of step show in below figure.



Process of Strategic Choice

1. Focusing on Alternatives: - In the first step, all the available alternatives are listed. The deviation between standard performance and the actual performance is studied by the strategists, called the gap analysis. This deviation or gap between the two becomes the basis for various strategic alternatives that the organisation can consider. If the organization does not deploy an effective strategy in the initial stages, the gap between what is to be achieved and actual performance may increase, making the organizational position worse.

2. Evaluation of Strategic Alternatives: Once the alternatives are identified, the strategist analyses these on the basis of their merits and demerits. This assessment is also based on several selection factors. Methods like corporate parenting, GE business screen, portfolio analysis, etc., are useful in this regard:

3. Considering Selection Factors: - The organization must consider both "objective" as well as "subjective" factors while evaluating the alternatives. These factors are explained as follows:

I) Objective Factors: Objective factors are a result of detailed analysis, information, vital facts and critical techniques. They can be of the following types:

a) Environmental factors

• Instability of environment

• Input supply from environment

• Influential stakeholders

b) Organizational factors

• Mission of the organization

• Strategic intent

• Business definition

• Strengths and weaknesses

ii) Subjective Factors: Subjective factors are judgmental and descriptive. The judgments' can be either individual or collective. Some of these factors are:

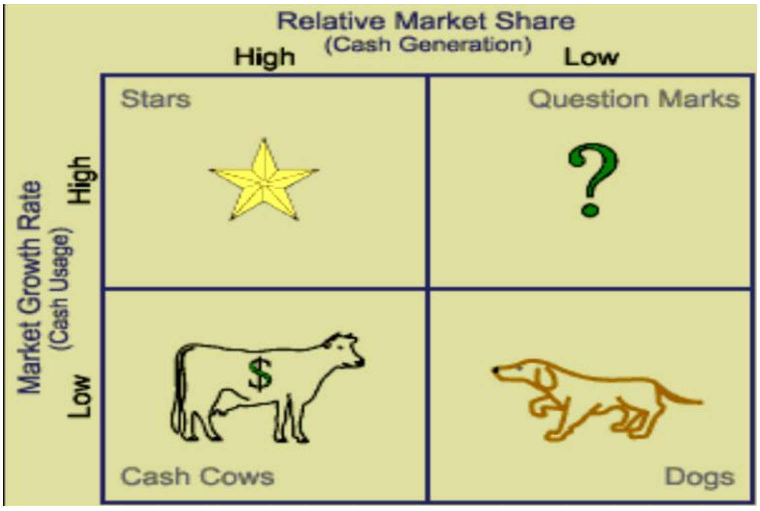
a) The strategies which have been employed earlier;
b) The personal views of the decision-makers;
c) Management's perception of risk;

4. Making the Strategic Choice: - The last step in the process is selecting the most feasible strategy. The strategist can select multiple strategies as well. In addition, a framework should be developed defining the strategy and the premise of its functioning. Creating and maintaining a structured and sequential process in the selection and implementation of the appropriate strategy is the main objective of the strategic choice making.

The BCG Portfolio Matrix

The BCG Growth Share Matrix is a portfolio planning model developed by Bruce Henderson of the Boston Consulting Group in the early 1970's. It is based on the observation that a company's business units can be classified into four categories based on combinations of market growth and market share relative to the largest competitor, hence the name "growth share". Market growth serves as a proxy for industry attractiveness, and relative market share serves as a proxy for competitive advantage. The growth share matrix thus maps the business unit positions within these two important determinants of profitability.

BCG Growth Share Matrix



The market growth and relative market share of each SBU leads to a classification into one of four categories:

1. **Stars** are high-growth, high-share products or businesses. Those often require heavy investments to finance their rapid growth. Once their growth slows down, which will eventually be the case, Stars will turn into Cash Cows.

2. **Cash Cows**. Cash Cows are low-growth, but high-share products or businesses. They need less investment to hold their market share, being well-established and successful SBUs. Therefore, Cash Cows produce a lot of cash which the company can use to invest in and support other SBUs that need investments to finance their growth, namely Question Marks and Stars.

3. **Question Marks**. Question Marks are low-share Strategic Business Units, but in high-growth markets. To hold their share, not mentioning increasing it which would be desirable, Question Marks require a lot of cash. If Question Marks become a success, they will turn into Stars one day. However, the likelihood that they fail must not be neglected. For that reason, management has to decide carefully which Question Marks will receive attention and investment in order to build them into stars, and which other, less promising ones will be phased out.

4. **Dogs** are low-growth, low-share businesses and products. In other words, Dogs are the least desirable SBUs of a company. They may generate enough cash still to maintain themselves. However, Dogs will not be large sources of cash, and should be phased out as soon as they become unprofitable or as soon as the firm can make better use of its resources to support other SBUs.

Usually, products or businesses of a company always start as a Question Mark. If they succeed, they will move on and market share will grow, turning them into Stars. As the market is satisfied and market growth falls, Stars become Cash Cows, a major source of cash for the firm. Finally, even the best Cash Cows become dogs when the end of their life cycle is reached

3. GE 9 Cell Model

The GE/McKinsey Matrix is a nine-cell (3 by 3) matrix used to perform business portfolio analysis as a step in the strategic planning process. The GE/McKinsey Matrix identifies the optimum business portfolio as one that fits perfectly to the company's strengths and helps to explore the most attractive industry sectors or markets. The objective of the analysis is to position each SBU on the chart depending on the SBU's Strength and the Attractiveness of the Industry Sector or Market on which it is focused. Each axis is divided into Low, Medium and High, giving the nine-cell matrix as depicted below.

GE Nine Cell Matrix

Industry Attractiveness	Business Unit Strength		
	Strong	Average	Weak
High	*Grow*	*Grow*	*Hold*
Medium	*Grow*	*Hold*	*Harvest*
Low	*Hold*	*Harvest*	*Harvest*

1) **Grow –** Business units that fall under grow attract high investment. Firms may go for product differentiation or Cost leadership. Huge cash is generated in this phase. Market leaders exist in this phase.

2) **Hold –** Business units that fall under hold phase attract moderate investment. Market segmentation, Market penetration, imitation strategies are adopted in this phase. Followers exist in this phase.

3) **Harvest -** Business units that fall under this phase are unattractive. Low priority is given in these business units. Strategies like divestment, Diversification, mergers are adopted in this phase.

The two basic factors considered in analyzing the business units are

Strength

- It allows intermediate ratings between high and low and between strong and week.
- It helps in channeling the corporate resources to business and achieving competitive advantage and superior performance.
- It helps in better strategic decision making and better understanding of business scope.

Weakness

- It tends to obscure businesses that are become to winners because their industries are entering at exit stage.
- Assessment of business in terms of two factors is not fair.

Merits of GE-9 Cell Model: - GE-9 Cell matrix has following merits:

1. GE-9 cell model offers a classification into medium and average ratings which the BCG matrix does not with the rather simplistic classification of high and low.
2. It also considers many factors like market share, industry size, etc.
3. It is also a very powerful strategic technique that channelizes corporate resources to businesses and categorizes them as per medium to high attractiveness and the medium to high business strength.
4. It also utilizes many factors while framing the two variables of industry attractiveness and business strength.

Demerits of GE-9 Cell Model: - Besides various advantages, GE-9 cell matrix has the following disadvantages:

1. It can become quite complex with increase in size of the business.
2. Industry attractiveness and business strengths are subjective variables and differ from person to person.
3. New business units in a developing industry cannot be analyzed through this model appropriately.
4. It rather than specifying the business policies provides strategic prescriptions.

The Ansoff Matrix:

The Ansoff Matrix was developed by H. Igor Ansoff and first published in the Harvard Business Review in 1957, in an article titled "Strategies for Diversification." It has given generations of marketers and business leaders a quick and simple way to think about the risks of growth.

Sometimes called the Product/Market Expansion Grid, the Matrix (see figure 1, below) shows four strategies you can use to grow. It also helps you analyze the risks associated with each one. The idea is that each time you move into a new quadrant (horizontally or vertically), risk increases.

Figure 1: The Ansoff Matrix

Market Penetration (existing markets, existing products):

Here we market our existing products to our existing customers. This means increasing our revenue by, for example, promoting the product, repositioning the brand, and so on. However, the product is not altered and we do not seek any new customers.

Market Development (New markets, Existing products):

Here we market our existing product range in a new market. This means that the product remains the same, but it is marketed to a new audience. Exporting the product, or marketing it in a new region, are examples of market development. Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets.

There are many possible ways of approaching this strategy, including:

- New geographical markets; for example exporting the product to a new country
- New product dimensions or packaging: for example
    - New distribution channels
    - Different pricing policies to attract different customers or create new market segments

Product Development (Existing markets, New products):

This is a new product to be marketed to our existing customers. Here we develop and innovate new product offerings to replace existing ones. Such products are then marketed to our existing customers. This often happens with the auto markets where existing models are updated or replaced and then marketed to existing customers.

Business Diversification (new markets, new products):

This is where we market completely new products to new customers. There are two types of diversification, namely related and unrelated diversification. Related diversification means that we remain in a market or industry with which we are familiar.

The diversification can be divided again into horizontal, vertical and lateral diversification.

- The horizontal diversification is the extension of the production programme.
- The vertical diversification is the sales stage stored by products pre order.
- The lateral diversification is the sales of completely new products, which within the range of the technology and marketing in no connection.

McKinsey 7-S model:

The Seven Elements:

The 7-S model can be used in a wide variety of situations where an alignment perspective is useful, for example, to help you:

- Improve the performance of a company.
- Examine the likely effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.

The McKinsey 7-S model involves seven interdependent factors which are categorized as either "hard" or "soft" elements:

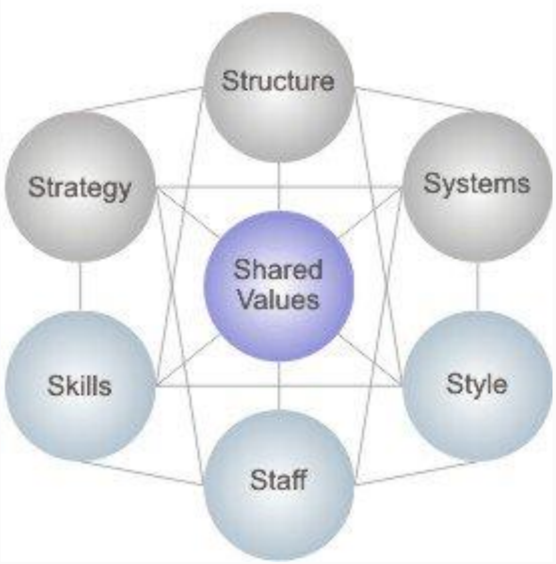
Hard Elements	Soft Elements
	Shared Values
Strategy	Skills
Structure	Style
Systems	Staff

"Hard" elements are easier to define or identify and management can directly influence them: these are strategy statements; organization charts and reporting lines; and formal processes and IT systems.

"Soft" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organization is going to be successful.

The way the model is presented in figure 1 below depicts the interdependency of the elements and indicates how a change in one affects all the others.

Figure 1: The McKinsey 7S Model



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Let's look at each of the elements specifically:

- **Strategy:** the plan devised to maintain and build competitive advantage over the competition.
- **Structure:** the way the organization is structured and who reports to whom.
- **Systems:** the daily activities and procedures that staff members engage in to get the job done.
- **Shared Values:** called "superordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.
- **Style:** the style of leadership adopted.
- **Staff:** the employees and their general capabilities.
- **Skills:** the actual skills and competencies of the employees working for the company.

Strategy implementation- Resource Allocation

Resource allocation is a process and strategy involving a company deciding where scarce resources should be used in the production of goods or services. A resource can be considered any factor of production, which is something used to produce goods or services. Resources include such things as labor, real estate, machinery, tools and equipment, technology, and natural resources, as well as financial resources, such as money.

How to Allocate Resources?

Successful strategic management involves ensuring that all company resources perform effectively. By learning how to manage competing priorities, successful business professionals enable employees to balance job tasks, schedule work efficiently and ensure that work flows smoothly from one process to the next. Today's dynamic, global environment poses challenges for company executives and project managers. By establishing a comprehensive strategic plan for allocating workers and supplies, you avoid costly mistakes that lead to overruns and delays.

1. Coordinate project and operational effectively by establishing a comprehensive program management strategy. Evaluate project proposals on a monthly or quarterly basis to decide which ones gets sponsorship. Consolidate multiple similar efforts under one program leader; this tends to enable the use of key resources more effectively and allow you to make critical deadlines.
2. Employ software tools, such project management software such as Microsoft Project, dotProject.net or Basecamp, to identify project tasks, allocate resources effectively, avoid overallocation and prevent employee burnout. Approve budgets,

finish dates and the amount of flexibility in the deadlines if you are a company executive to help project managers make decisions aligned with the company's strategic goals.
3. Delay tasks until staff have time available to work on them or split up tasks and hire additional workers to prevent staff from working more than 40 hours in a typical week and becoming burned out.
4. Outsource routine tasks to companies that specialize in a particular function, such as payroll processing, customer service or technical support.
5. Train employees so they have the required skills and job tasks get completed on time to ensure timely delivery of products and services. Train less experienced workers to complete job tasks if you experience unexpected demand or attrition. Obtain specialized training from authorized providers to ensure that your company runs a safe workplace that complies with local, state and federal regulations.
6. Manage suppliers by analyzing work flow of resource materials from one process to the next. Gather input from experts before considering alternative solutions to backlogs. Take prompt action to rectify problems if a supplier provides poor quality materials or delivers them late. Require that the supplier improves the quality of raw materials and provides them on time.

Method of Resource Allocation

In an economist's perfect world, which doesn't exist, of course, resources are optimally allocated when they are used to produce goods and services that match consumers' needs and wants at the lowest possible cost of production. Efficiency of production means fewer resources are expended in producing goods and services, which allows resources to be used for other economic activities, such as further production, savings, and investment. This basically boils down to creating what customers want as cheaply and efficiently as possible.

Projects and Procedural issues in Strategy implementation

Following the procedures laid down for implementation constitutes an important component of strategy implementation in the Indian context :

- Licensing Procedure
- Foreign Collaboration Procedure
- FERA Requirements
- MRTP Requirements
- Capital Issue Control Requirements
- Import and Export Requirements
- Incentives and Facilities Benefits

Organization structure and systems in Strategy implementation

Strategies do not take place against a characterless background but must take account of the features of the organization in which they will be implemented. Organizational structures determine what actions are feasible and most optimal. The importance of organizational structures in the implementation of a strategy is hard to overemphasize. Good strategy involves taking account of where a company finds itself in terms of the external market and its internal organizational structure. Strategy and implementation must cohere.

Centralization

Some organizations have a more centralized structure already in place before a strategy has been implemented. When this is the case, it makes implementing certain strategies more feasible. Change is always difficult to implement as a part of strategy; the fewer people involved in decision-making, the easier it is to gain consensus. More dramatic strategies are aided by a centralized organizational structure. Dramatic strategies can mean changing the basic ways an organization does business.

Innate Advantages

The best strategies often seek to take advantage of the innate advantages that an organization already possesses. Most organizations have certain departments that are particularly effective and certain tasks that it is already adept at doing. Strategies of this sort seek to rearrange organizational structures so as to better benefit from innate advantages. These strategies involve taking steps such as expanding parts of the organization that are successful and shrinking those that are not.

Consensus

Organizational structures are often important in gaining consensus for a strategy. If all the parts of an organization aren't onboard with a given strategy, it will stand less of a chance of succeeding. The structure of an organization will have much to do with gaining consensus because it will determine who has to be appeased in management and how power is aligned. Different personal interests will often conflict and need to be addressed.

Overcoming Disadvantages

An organization that has been failing to compete effectively will often need to go through an organizational restructuring to change its focus. It will need to change its organizational structures to move away from tasks that it is not suited for. This sort of structural shift can be traumatic for an organization and requires great resources of will. Often an organization must have reached a crisis before this type of strategy can occur.

Leadership and Corporate Culture

Executives have the power to shape corporate culture and motivate ethical conduct. Most leaders consider themselves ethical. Some, however, question whether ethics is a relevant component of leadership. Boatright (2009) contends that it is just as important to embrace ethical behavior in public life as well as in private life. Most corporate moguls are under the impression that behaving ethically alone is enough to sustain them as an effective leader.

In fact, studies suggest that leaders do not believe specialized skills or knowledge in ethics are necessary to produce effective results in the work place (Boatright, 2009). This is a false perception. Situations arise more often than not in a business environment where leaders cannot easily resolve issues without identifying the ethical implications. This research focuses on the role a leader plays in the development of an ethical corporate culture. It takes a closer look at the importance of ethical leaders and the various roles they serve in an organization. In addition, this study will illustrate the relationship between ethical leaders and their stakeholders.

The analysis will also examine various leadership styles, the impact they have on corporate culture, how they affect ethical-decision making, and draw from examples to support this investigation. The findings of this research will conclude that leaders, who engage in business practices without ethical rules and regulations, will eventually discover that ethical misconduct behavior can easily become an inevitable component in their future.

Importance of Ethical Leadership

The most successful leaders use their power to shape corporate culture and motivate ethical conduct. Because they are in the business of making a profit, they design strategies to achieve desired outcomes. Deepak Chopra (2012) reminds us that life is riddled with challenges, obstacles, and situations that leave many individuals asking the question, "**Why is this happening**?" No matter what advantages an individual may possess – money, intelligence, charismatic personality, a positive disposition, or influential social connections – none of these elements offer a magic key to effective leadership (Chopra, 2012). Managing directors are continually faced with difficult challenges. How they manage these trying situations can make the difference between the prospect of success and the threat of failure (Chopra, 2012). For example, when leaders cultivate an environment of fraud and deceit, they are fertilizing the ground for failure and destruction. In order for an executive to be considered an effective leader, they must have the ability to:

(a) Guide a corporation to profits for the sake of the stakeholders,

(b) Achieve organizational goals in an ethical manner

(c) Motivate their employees to adhere to behavior that is in alignment with the organization's code of conduct.

Consistency also plays an important role for successful executives. The most effective leaders incorporate policies that inspire high performance levels and motivate organizational behavior that goes beyond just observing regulations. When leaders establish trust with subordinates, they earn the loyalty of their staff. In return, employees trust their leaders to protect them from harm in return for their services, dedication, and loyalty.

By making choices to work in partnership with their employees, leaders can help them achieve greater levels of success than perhaps even they realized were capable of achieving. Employees who respect their supervisors, feel supported and appreciated by them, are more likely to become motivated and go beyond just achieving organizational goals.

Leaders and Stakeholders

Stakeholders provide leaders another reason to cultivate an ethical culture. As a leader, it is their responsibility to make sure the company is guided towards the path of success and profit for the benefit of the stakeholders that support them. Executives, therefore, must incorporate effective strategies and hire the appropriate talent to reach desired outcomes as part of their responsibility to the employees, consumers, suppliers, and society as a whole. Ferrell et al. (2013) posit that because stakeholders have the ability to affect corporate policies it is imperative that leaders find methods to use their power to influence positive outcomes. There are five power strategies leaders utilize to achieve their goals:

(a) Reward power

(b) Coercive power

(c) Legitimate power

(d) Expert power,

(e) Referent power

The Decision-Making Process

The decision-making process also plays an integral role in how leaders influence corporate culture and motivate ethical conduct. Hanh (2012) posits that because leaders can get into difficult situations, they must have the ability to handle strong emotions in the workplace in order to maintain effective relationships.

To achieve this they must keep communication open and become cognizant to avoid the creation of a negative or repressive work culture. The most successful leaders incorporate practices that help manage strong emotions and become educated on how to utilize these strategies in good times before strong emotions arise.

Values, Ethics and Social Responsibility

Values

Important and lasting beliefs or ideals shared by the members of a culture about what is good or bad and desirable or undesirable. Values have major influence on a person's behavior and attitude and serve as broad guidelines in all situations. Some common business values are fairness, innovation and community involvement.

Values are enduring, passionate, and distinctive core beliefs and they're an essential part of developing your strategy. They are based on enduring tenets—guiding principles—to adhere to no matter what mountain you climb. Your core values are part of your strategic foundation. They are the beliefs that guide the conduct, activities and goals of your organization. They establish why you do what you do and what you stand for. Values are deeply held convictions, priorities, and underlying assumptions that influence the attitudes and behaviors of your organization. Strong values account for why some organizations gain a reputation for such strategic traits as leadership, product innovation, and total customer satisfaction. These never change.

Ethics

Ethics in business and management (including strategic management) deals with moral issues (beliefs, norms, values, etc.) arising from activities performed by managers and employees of the corporation.

Business ethics is a term with quite a multifaceted meaning. Most of them however, boil down to the general and the basic conclusion that economics should serve man, not vice versa. So, managers should not be guided in their actions solely by profit or personal gain.

Business ethics is both part of the prescriptive (normative) ethics establishing standards of conduct, recommending certain behaviours, as well as descriptive ethics, describing the moral attitudes and behaviours of entrepreneurs.

Business Ethics and Ethical Business Practices

Business ethics deals with moral issues (beliefs, norms, values, etc.) found in the business. It should be noted that business ethics is a term with quite a multifaceted meaning. A variety of content, which is attributed to business ethics depends on the context of its occurrence. Each approach, however, boils down to the general and the basic conclusion that economics should serve man, not vice versa. Entrepreneurs cannot be guided in their actions solely by profit. Ethics, as having theoretical knowledge of fundamental importance for our actions, it is rational and reasoned knowledge of the values and duties of human action, arising from the fact of being human. Business ethics is concerned of limits to human economic activities.

Ethical issues in Business

Business ethics is both part of the prescriptive (normative) ethics establishing standards of conduct, recommending certain behaviours, as well as descriptive ethics, describing the moral attitudes and behaviours of entrepreneurs. In principle, the practical goal of business ethics is to solve ethics problems in business.

Ethical factor in area of business communication

- Proper marketing techniques, telling truth about products and services,
- Informing customers, employees and partners about company's mission statement and goals,
- Respecting religious and social values of employees, customers and partners,
- Negligence in informing shareholders about company's situation, managerial ethics
- Insider trading, hiding information about mergers, acquisitions, investments, etc.

Ethical factors concerning production processes

- Eliminating unsafe working conditions,
- Avoiding processes and technologies that jeopardize the safety of the employees and public,
- Producing product safe for customers,
- Waste product utilization and recycling,
- Profiting from products bad for health (drugs, cigarettes, alcohol) and people (gambling),

Social Responsibility

Social responsibility is a form of management that considers ethical issues in all aspects of the business. Strategic decisions of a company have both social and economic consequences. Social responsibility of a company is a main element of the strategy formulation process. There is a misconception that corporate social responsibility is less relevant to small businesses; however, there is growing recognition of the importance of social responsibility for smaller firms.

Integrating social responsibility in strategic management requires sound knowledge of the types of social responsibilities a company deals with. Economic responsibilities are the most basic type of social responsibilities. The company is expected to provide goods to the society at reasonable prices, create jobs and pay due taxes.

Legal responsibilities reflect the obligation to comply with the laws that regulate business activities; ethical responsibilities mirror the company's notion of the right business behavior. Some actions might not be illegal but can be unethical. Making and selling cigarettes is a case in point.

Finally, discretionary responsibilities are those that are voluntarily adopted by the business. For example, companies that adopt the good citizenship approach, actively support charities, public service advertising campaigns and other public interest issues

Operational and Derived Functional plans to Implement Strategy

Management strategies provide business owners with frameworks that help them reach their ultimate goals. Management experts have developed these strategies to be applied at different structural levels within a business. Operational-level strategies are applied to business operations as a whole, while functional-level strategies are implemented for each department.

Advantages of Operational Strategy

A major advantage of operational strategy is its focus on competition. Business that lag behind their competitors can implement company-wide operational strategies to close the gap. Companies that have a competitive advantage can apply operational strategies to maintain or increase their advantage. These operational strategies then can be broken down and implemented at the departmental level. The success of operational strategies are also easy to measure, such as increased profits, reduced costs and higher market share in the industry.

Drawbacks of Operational Strategy

The operational strategy approach also carries some noticeable disadvantages. An operational strategy can often demonstrate a lack of flexibility. A shift in industry technology, new government regulations, or an upstart competitor can derail a business that adheres too closely to a rigid operational strategy. Also, the nature of operational strategy calls for all company assets to be assessed in terms of their contribution to the company’s profits. While placing a monetary value on computers, equipment, and intellectual property is a necessary step, employees may resent being treated like a cog in a machine.

Advantages of Functional Level Strategy

While operational-level strategies cover the company as a whole, functional-level strategies involve individual departments, functions, or roles within the company. These functional strategies serve as components to the overall operational strategy. The functional strategies focus on specific business tasks and use the skills of the employees within each department to their peak efficiency

Drawbacks of Functional Level Strategy

Although a functional-level strategy can give department leaders some autonomy, problems occur when each department becomes an island. When department's heads place too much emphasis on implementing their departmental functional strategies, the overall result can be a company-wide loss of productivity.

UNIT-5

Strategy Evaluation & Control – Nature, Importance

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in todays dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

The process of Strategy Evaluation consists of following steps-

1. **Fixing benchmark of performance -** While fixing the benchmark, strategists encounter questions such as - what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organization can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria include determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.

2. **Measurement of performance -** The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate

means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as manager's contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.

3. **Analyzing Variance -** While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

4. **Taking Corrective Action -** Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

Organizational systems and Techniques of strategic evaluation & control:

Strategic Evaluation & control is as important as strategy formulation. It sheds light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results.

Role of organizational systems in strategic evaluation & control: Strategic evaluation operates in the context of various organizational systems. An organization develops various systems which help in integrating various parts of the organization. The major organizational systems are: information system, planning system, motivation system, appraisal system and development system. All these organizational systems play their role in strategic evaluation and control. Some of these systems are closely and directly related and some are indirectly related to evaluation and control. In connection with the role of organizational systems in strategic evaluation & control, the following systems may be important.

1. **Information System**

   Evaluation and control action is guided by adequate information from the beginning to the end. Management information and management control systems are closely interrelated which the information system is designed on the basis of control system. Every manager in the organization must have adequate information about his performance, standards and how he is contributing to the achievement of organizational objectives. There must be a system of information tailored to the specific management needs at every level, both in terms of adequacy and timeliness.

2. **Planning System**

   Planning is the basis for control in the sense that it provides the entire spectrum on which control function is based. In fact, these two terms are often used together in the designation of the department which carries production planning, scheduling and routing. It emphasizes that there is a plan which directs the behavior and activities in the organization. Control measures these behavior and activities and suggests measures to remove deviation. Thus, there is a reciprocal relationship between planning and control.

3. **Motivation System**

   Motivation system is not only related to evaluation and control system but to the entire organizational processes. Lack of motivation on the part of managers is a significant barrier in the process of evaluation and control. Since the basic objective of evaluation and control is to ensure that organizational objectives are achieved. Motivation plays a central role in this process. It energizes managers and other employees in the organization to perform better which is the key for organizational success.

4. **Appraisal System**

   Appraisal or performance appraisal system involves systematic evaluation of the individual with regard to his performance on the job and his potential for development. While evaluating an individual, not only his performance is taken into consideration but also his abilities and potential for better performance. Thus, appraisal system provides feedback for control system about how individuals are performing.

5. **Development System**

   Development system is concerned with developing personnel to perform better in their present positions and likely future positions that they are expected to occupy. Thus, development system aims at increasing organizational capability through people to achieve better results. These results become the basic for evaluation and control. Role of organizational systems in strategic evaluation should not be undermined.

Techniques of strategic evaluation & control

Strategy evaluation and control is the sixth step in the strategic management process. As we have read that well executed strategy definitely ensures successful achievement of organizational goals and objectives. But changes internal and external environment of an organization may not allow the firm to achieve desired goals and objective. The environment changes may takes place at any stage of strategy implementation. Strategy evaluation and control done after measuring results shall not help in taking corrective action. It should be done in the early stage of strategy execution, to see whether the strategy is successfully implemented or not and to carryout mid-course corrections whenever necessary. Therefore strategists should systematically review, evaluate, and control the process of strategy implementation.