

**Q 1. Define the term strategy what is its significance for any business, organization? Explain 5 P's for strategy that is strategy as plan, pattern, position, perspective & as purpose? (2010, 2012)**

**Ans.** "Strategy is a fundamental pattern of present and planned objectives, resource deployment and interactions of an organisation with markets, competitors and environmental factors."

The first fundamental of business is to survive. It is euphemistic way of saying that business needs to make profit. Any business not making profits is sure to sink. And in order to survive, business needs to grow constantly. Gone are the days of static business where a business could survive without substantial growth. Your neighbourhood Kiranawala is no more secure in his small shop. He is being threatened by Reliance, Subhiksha, Bharti-Walmart and the Mega Malls mushrooming like Pan Shops everywhere. Your decades old family tailor's business is being usurped by the mega branded apparels. Thus, to be able to survive in this globalising market, the business needs to be able to grow.

In the business environment that is prevailing and forecasted to unfold over the next two decades, every business, however big or small, is threatened by the competition. Even Reliance is scared about Wal-Mart's entry and is advancing rollout of its retail ventures. While there is always the first mover's advantage, in the end it will be business strategies which will differentiate between successful and failed business.

**Importance of Strategy to organisation:-**

The strategic management of business will enable an organization in the following ways:

- It gives a sense of long-term direction and provides a framework for guidance in medium-term and short-term planning.
- It allows for identification, prioritization, and exploitation of opportunities.
- It is a conscious and a rational management exercise, which involves defining and achieving an organization's objective and implementing its mission.
- It is the only means by which the future opportunities and problems can be anticipated by the management.

- It allows more effective allocation of time and resources to identified opportunities.
- It allows fewer resources and less time to be devoted to correcting erroneous or *ad hoc* decisions.
- It leads to better analysis and diagnosis of the current and likely future environment, identifying opportunities and threats.
- It involves planning, implementation and control of an organization's strategy.
- It gives a degree of discipline and formality to the management of a business.
- It creates a framework for internal communication among personnel.
- It enables the organization to be more aware of its external environment and enables it to adapt to achieve a better fit with its environment.
- It is concerned with implementation of policies that are considered to be appropriate.
- It represents a framework for improved coordination and control of activities.
- It is the adoption of a course of action so as to achieve a given objective with the specified reason.
- It provides a cooperative, integrated and enthusiastic approach to tackling problems and opportunities.
- It improves quality of strategic decisions through group interaction.

### **5 Ps of Strategy:-**

Mintzberg first wrote about the 5 Ps of Strategy in 1987. Each of the 5 Ps is a different approach to strategy. They are as follows.

**1. Plan** - Plans evolve from the patterns of the past and are about intended patterns for the future. Planning is something that many managers are happy with, Default, automatic approach that organizations adopt. Planning deals with PEST Analysis, SWOT Analysis and Brainstorming to help companies think about and identify opportunities. The problem with planning, however, is that it's not enough on its own. This is where the other four Ps come into play.

**2. Pattern** – Sometimes, however, strategy emerges from past organizational behavior. Rather than being an intentional choice, a consistent and successful way of doing

business can develop into a strategy. Patterns are typical progressions of business environment like market growth, customer behaviour and response, etc. For example, in a retail outlet, the no. of white & black shirts which are sold is consistent throughout the year.

**3. Positioning** - "Position" is another way to define strategy - that is, how companies decide to position themselves in the marketplace. It helps you develop a sustainable competitive advantage. For example, your strategy might include developing a niche product to avoid competition, or choosing to position yourself amongst a variety of competitors, while looking for ways to differentiate your services. To do this, cos. use PEST Analysis, and Porter's Five Forces to analyze your environment. These tools will show where you have a strong position, and where you may have issues.

**4. Perspective** - Perspective is about an organisation's culture - its way of doing things. Tata, Infosys and Wipro would prefer to forego some profit in favour of following business ethics and corporate governance. Some other business house will probably have no qualms in burying all ethics below their profit motive. Strategy will be drawn accordingly.

**5. Ploy** - Mintzberg says that getting the better of competitors, by plotting to disrupt, dissuade, discourage, or otherwise influence them, can be part of a strategy. Business tactics are also termed as ploys. Ploy is a specific manoeuvre intended to outwit a competitor. It's an ambush marketing tactics. For example, a grocery chain might threaten to expand a store, so that a competitor doesn't move into the same area.

**Q 2. “Managing change in the hallmark of any successful leader.” How do you handle the process of change management in formulation of strategies for a business organization? (2011)**

**Ans.** Change management is a great challenge. Successful changes will lead to growth while failures can be catastrophic. In today’s fast changing world, CHANGE is the only permanent. Change has always been there. But the rate of change that has been seen in the last two or three decades, has been unprecedented. Many organisations were overwhelmed by the changing business climate and because of their failure to manage the change sweeping their sector, they lost out completely. Some have been wiped out of the corporate scene and many others are barely a shadow of what they were once upon a time. But there were some dynamic organisations also who took this all pervasive change as an opportunity and either changed themselves or managed the changing environment to keep them competitive.

**Necessity of change:**

- (a) Technological upgrades
- (b) Competition
- (c) Change in Customers’ tastes and preferences (fashion)
- (d) Social Changes
- (e) Political Environment

**Steps involve in changing process:**

The management of strategic change involves serious steps that manager must follows if the change process is to be successful. The major important steps are listed below.

- Determining need for change:- By conducting Swot analysis
- Determining the obstacles:- To change, by analysing obstacles related to corporate, divisional or functional strategies preventing the company from reaching to ideal future
- Implementing change:- Top - Down change or Bottom - Up change
- Evaluating change:- Evaluate effect of the change in strategy & structure on organisation performance

However, changes are not easy and there is always opposition to change.

**Reasons for opposition to change:**

- (a) Fears of
  - (i) Unknown
  - (ii) Economic loss
  - (iii) Perceived inconveniences
  - (iv) Loss of power/status
- (b) Need to learn new skills/knowledge
- (c) Insecurity
- (d) Social/Peer Pressure
- (e) Resistance from groups
- (f) Organisational Culture
- (g) Lack of incentives

**Managing change in organization:**

In order to effect the changes without causing any disruptions, a meticulous strategy is required to be formulated keeping in mind their effect on the affected section of the people in terms of various factors like economic, social, religious, physiological, psychological, etc. The strategy for effecting changes lies in Greatest Political Scientist - Chanakya's Neeti is now translated into modern management jargon and elaborated as follows;

(a) Education and communication: Resistance can be reducing to communicating with employee to help them see the logic of change. Communication can reduce resistance on two levels; first, it fights effects of misinformation & poor communication. If employee receive the full facts & get any misunderstanding cleared up resistance should subside. Secondly, communication can help selling the need for change. This however does not mean that everything should be communicated to all. Advance information regarding certain matter may do more harm than good. Thus there should be proper judgement & selectivity with respect to communication in organisation E.g. Glaxo

(b) Pace to change: The pace change targets who will be central to change programme & factors i.e. the specific change targets to be address at different types should be clearly determine.

(c) Participation: It's difficult to individual to resist a change decision in which they have participated. Prior to making a change those oppose can be brought into decision process.

(d) Building support & commitment: Change agent can offer range of supportive activity to reduce resistance. When employee's fear & anxiety are high employee counselling, new skill training or short paid leave may facilitated adjustment.

(e) Selecting people who accept change: Research suggest that, to ability to easily accept or adopt to change is related to personality. Some people simply have more positive attitude about change than others. These people are open to experience, take positive attitude towards change, willing to take risk & flexible in their behaviour.

(f) Manipulation – Co-option: It refers to covert influence attempt. Twisting & distorting facts to make them appear more attractive with holding undesirable information & creativity false rumours to get employee to accept a change are example of manipulation E.g. If corporate management threaten to close down particular manufacturing plant. If that plant employees fails to accept & across the put cut & threat is actually untrue, then management using manipulation. Co-option on other hand is form of both manipulation & participation. It seeks to buy off the leaders of a resistance group by giving them key role in decision change.

(g) Coercion: It is direct application of direct threat or force on resistance E.g. threats of transfer, loss of performance, negative performance evaluation, poor later of recommendation.

Use of single method is often unlikely to yield good results. A mixed strategy is more successful. What we have discussed above is from the individual perspective. But these individuals become managers and then either lend their personality to the organisation or borrow a personality from the organisation depending upon their level in the organisation and structure of the organisation.

Depending upon the top management, an organisation can be a static organisation where little ever changes or a dynamic organisation where change is continuous. HMT, who till 1990, boasted as the time keepers of the nation, are nowhere now. They failed to catch the wind of change sweeping the country and were swept aside by Titan. Similarly, Bata and Corona, the two Czars of footwear, have lost relevance. Bata is surviving on the fringes while Corona is completely wiped out.

**Q 3. Define terms i) Mission ii) Vision iii) Objective of business organization write the mission, vision & objective statement for a „B” school. How do these statements help in strategy formulation highlighting corporate philosophy & corporate governance? (2010, 2011)**

**Ans. Vision:-**

A Vision is a guide to implement strategy, it keeps the organization moving. Vision is the motivator in an organization vision is about feelings, belief emotions and pictures. The process and outcome of vision is to develop an effective basis for business strategies. Kottler (1990) defines it as a ‘description of something in the future’. EI-Namaki (1992) considers it as a “mental perception of the kind of environment an individual, or an organization, aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception.” Miller and Des (1996) view it simply as the “category of intention that are broad, all inclusive and forward thinking.”

The Benefits of Having a vision-

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

As well conceived vision consists of two major components: core ideology and envisioned future. The core ideology defines the enduring character of an organization that remains unchangeable as it passes through the vicissitudes of vectors, such as, technology, competition, or management fads. The core ideology rests on the core values and core purposes.

**Vision Statement of Britannia:** Mr. Sunil Alag when he was CEO of Britannia decides to come up with one line vision for the company “Every third Indian must be a Britannia consumer by 2004.

**Vision Statement of ITC:** Y. C. Dereshwar Chairman of ITC had a vision of ITC, reminiscent (Remembering) of Jack Welch he said that in a matured economy, with developed market institution ITC was unlikely to be successful unless it was focuses on a one theme vision ” Either we become world –class or we leave the business”.

**Vision Statement of Hindustan Level Ltd.:** Hindustan level Ltd. “Our vision to meet the everyday needs of people everywhere”

### **Mission:-**

Mission is a statement which defines the role that an organization plays in a society. It refers to the particular needs of that society for instance, its information needs. Thompson (1977) defines mission as the ‘essential purpose of the organization, concerning particularly why it is in existence, the nature of the business it is in and the customers it seeks to serve and satisfy.’ Hunger and Wheelen (1999) say that mission is the “purpose or reason for the organization’s existence.

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

Major strategists could also contribute to the development of a mission statement. They do this informally by lending a hand in the creation of a particular corporate identity or formally through discussions and the writing down of a mission statement. Chief executives plan a major role in formulating a mission statement both formally and informally. They may set up executive committees to formally discuss and decide on a mission statement or enunciate a corporate philosophy to be followed for strategic management.

In order to be effective, a mission statement should possess the following seven characteristics.



1. It should be feasible. A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable-its followers must find it to be credible.
2. It should be precise. A mission statement should not be so narrow as to restrict the organization's activities nor should it be too broad to make itself meaningless.
3. It should be clear. A mission should be clear enough to lead to action. It should not be a high-sounding set of platitudes meant for publicity purposes. Many organizations do adopt such statements but probably they do so for emphasizing their identity and character.
4. It should be motivation. A mission statement should be motivation for members of the organization and of society and they should feel it worthwhile working for such an organization or being its customers.
5. It should be distinctive. A mission statement which is indiscriminate is likely to have little impact. If all scooter manufactures defined their mission in a similar fashion, there would not be much of a difference among them.
6. It should indicate major components of strategy. A mission statement, along with the organizational purpose should indicate the major components for the strategy to adopted.
7. It should indicate how objectives are to be accomplished. Besides indicating the broad strategies to be adopted a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished.

The first task of strategic management is formulating the organization vision, mission and value statement. They have the greatest impact on the identity and the future of the organization and reflect the strategic intent of the organization.

**Mission statement of Ranbaxy Laboratory Ltd:** Mission Statement: "Our mission is to become a research based international pharmaceutical company"

**Mission statement of McDonalds:** "To offer the fast foods, customers food prepared in the same high quality worldwide tasty and during reasonable period, delivered in a consistent low key décor and friendly manner."

### **Objective:-**

Objectives may be defined as "these ends which the organization seeks to achieve by its existence and operations." Objective defines the enterprise it covers long range company

aims most specific company's departmental goals and even individual assignments, therefore, objectives may pertain to a wide or narrow parts of an enterprise that may be either long term or short term objectives may be tangible or intangible. Tangible objectives may include achievement of any materially quantifiable targets or goals. E.g. selling of 1000 cars in a year or 10,000 T.V in a year. Intangible objectives include factors like brand or companies image or employee morale. Objectives should not be statics. They should be dynamic. As Philip kotler remarks "objectives can draw obsolete because of the continuous changes occurring in the company's marketing environment.

### **Importance of objectives**

1. It justifies the organization
2. It provides direction
3. It is based for management by objectives (MBO)
4. It helps strategic management.
5. It helps co-ordination
6. Provide standards for assessment and control
7. It helps decentralization.

An Organization having hierarchy of objectives at different levels, Objectives can be classified into two categories:

#### 1) Economic objectives related to

- a. Survivals
- b. Growth
- c. Return on Investments
- d. Innovation in market share

#### 2) Social Objectives

- a. Social objectives are related to protecting the interest of consumers
- b. of the employer
- c. of Society

### **Nike's Strategic objectives:**

- 1) Protect Nike's position as the No.1 the brand America
- 2) Build a strong momentum on growing fitness market
- 3) Intensify the company's efforts to develop products that women need and want

- 4) Explore the markets for the products specially design for the requirements of Americans
- 5) Direct and manage company's international business as it continue to develop
- 6) Continue the desire for increasing margin through proper inventory management and better products.

**Organizational Values and their impact on strategy:**

The value statements give a common cause and common sense of purpose, wherein the organization just like the mission statement; it provides the direction to the strategy of the organization. E.g. The value of Wipro Technologies “with utmost respect to human values we promise to serve our customers with integrity through innovative value for money solutions by applying thought day by day”.

**Q 4. Explain the concept of diversification. Does it dilute the business risks resulting in pathways for success? Give illustration? (20008, 2009, 2010, 2011, 2012)**

**OR**

**Diversification is inevitable to remain in business. Companies have adopted different forms of diversification to achieve their objectives. What parameters can be used to judge the quality of diversification?**

**Ans.** Diversification is a much used and much-talked about set of strategies. These strategies involve all the dimensions of strategies alternatives. Diversification may involve internal or external, related or unrelated, horizontal or vertical and active or passive dimensions-either singly or collectively. Essentially, diversification involves a substantial change in the business definition – single or jointly-in terms of customer functions, customer groups, or alternative technologies or one or more of a firm's business. Diversification strategies being one of the most important type of strategies for expansion will be discussed in detail in this section. Basic diversification strategies are:

**Concentric Diversification:-**

When an organization takes up an activity in such a manner that it is related to the existing business definition of one or more of a firm's businesses, either in terms of customer groups, customers functions alternative technologies, it is called concentric diversification. Concentric diversification may be of three types:

**1. Marketing:** Related concentric diversification: When a similar type of product is offered with the help of unrelated technology for example a company in the sewing machine business diversifies into kitchenware and household appliances, which are sold to housewives through a chain of retail stores.

**2. Technology-related concentric diversification:** When a new type of product or service is provided with the help of related technology, for example, a leasing firm offering hire-purchase services to institutional customers also starts consumer financing for the purchase of durables to individual customers.

**3. Marketing-and technology-related concentric diversification:** When a similar type of product (or service) is provided with the help of related technology, for example, a raincoat manufacturer makes other rubber – based items, such as, waterproof shoes and rubber gloves, sold through the same retail outlets.

### **Conglomerate diversification:-**

When an organization adopts a strategy which requires taking up those activities which are unrelated to the existing business definition of one or more of its business, either in terms of their respective customer groups, customer function or alternative technologies, it is called conglomerate diversification. ITC a cigarette company diversifying into a hotel industry. Some other examples are those of the Essar Group (shipping, marine construction, oil support services and iron and steel) Shriram Fibers Ltd. (nylon industrial yarn, synthetic industrial fabrics, nylon tiers cords, fluoro-chemicals, fluorocarbon refrigerant gases ball and needle bearings, auto-electrical, hire-purchase and leasing and financial services).

### **Why is diversification strategies adopted:-**

The three basic and important reasons are:

1. Diversification strategies are adopted to minimize risk by spreading it over several businesses.
2. Diversification may be used to capitalize on organizational strengths or minimize weaknesses.
3. Diversification may be the only way out if growth in existing businesses is blocked due to environmental and regulatory factors.

Diversification strategies have their own advantages and disadvantages and disadvantage. Concentric diversification enables a firm to attain synergy by exchange of resources and skills and to avail economies of scale and tax benefits. On the other hand, the disadvantage of concentric diversification lies in the increase in risk and commitment, and a reduction in flexibility.

Conglomerate diversification offers the advantage of better management and allocation of cash flows, realizing a higher return on investments, and the reduction of risk by spreading investment in different businesses industry. It has the disadvantages of diversion of resources and attention to other areas leading to a lack of concentration and facing the risks of managing entirely new businesses.

Pattern of diversification It is widely accepted that the post-1984 and particularly the post-1991 period has seen a gradual liberalization of the Indian economy. The relaxation of controls has generally made a positive impact on the business policies of firms. Many

companies have taken the various advantages offered by the liberalization measures and diversified into related and unrelated areas.

The ideas whether diversification is an effective strategy has assumed significance in view of the fact that ideas of core competence and focus have gained greater acceptability among companies, investors, consultants and academicians in the developed countries. Diversifications, specially unrelated ones, seem to be out of favor. But there is a divergent and interesting view of which strategies could be better for companies in developing countries like India. The fact is that several Indian business groups have been attempting concentration in lien with the thinking on core competence. But this is being done in a unique Indian way of adopting a middle path.

Diversification strategies offer high rewards if steps are taken for their proper implementation. We will refer to this issue later when we deal with strategy implementation.

**Q 5. Explain the strategic management process in any organization? (2008, 2009, 2010, 2011)**

**Ans.** Glueck (1984) defines strategic management as “a stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.”

Sharplin (1985) defines strategies management as “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.” This is an all-encompassing view of strategic management and considers all plans and activities which are important for an organization.

Harrison and St. John (1988) defines strategic management as “the process through which organizations analyze and learn from their internal and external environments, establish strategic direction, create strategies that are intended to help achieve established goals and execute these strategies, all in an effort to satisfy key organizational stakeholders.”

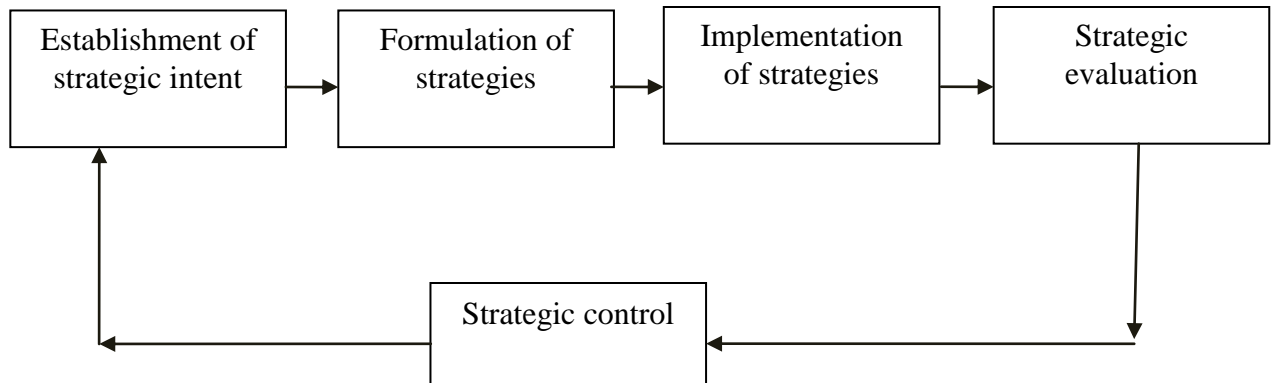
Strategic management is considered as either decision making and planning, or a set of activities related to the formulation and implementation of strategies to achieve organizational objectivities, in strategic management the emphasis is on those general management responsibilities which are essential to relate the organization to the environment in such a way that its objectives may be achieved.

There are four essential phases in the strategic management process, though they may differ with regard to its sequence, emphasis or nomenclature. These four phases could be encapsulated as follows:

1. Establishing the hierarchy of strategic intent.
2. Formulation of strategies
3. Implementation of strategies and
4. Performing strategic evaluation and control

These four phases are considered as sequentially linked to each other and each successive phase provides a feedback to the previous phases.

## Phases in the Strategic Management Process:-



Each phase of the strategic management process consists of a number of elements which are discrete and identifiable activities performed in logical and sequential steps.

### (1) Establishing the hierarchy of strategic intent:

- a) Creating and communicating a vision
- b) Designing a mission statement
- c) Defining the business
- d) Setting objectives.

### (2) Formulation of Strategies:

- e) Performing environmental appraisal
- f) Doing organizational appraisal.
- g) Considering corporate level strategies
- h) Considering business-level strategies
- i) Undertaking strategic analysis.
- j) Exercising strategic choice
- k) Formulating strategies
- i) Preparing a strategic plan.

### (3) Implementation of strategies:

- m) Activating strategies
- n) Designing structures and systems.
- o) Managing behavioral implementation



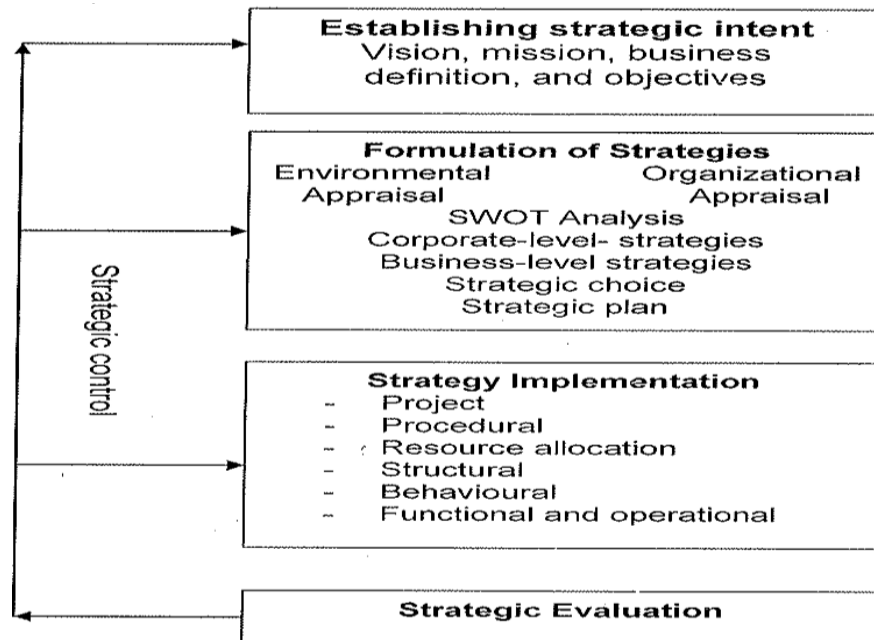
- p) Managing functional implementation
- q) Operational sing strategies

**(4) Performing strategic evaluation and control:**

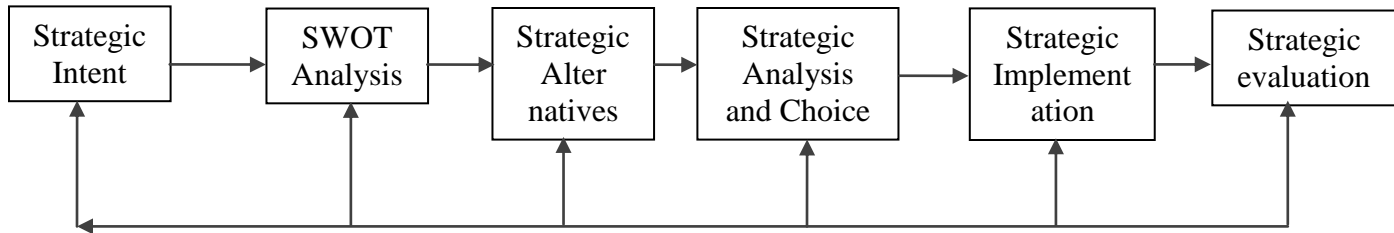
- r) Performing strategic evaluation
- s) Exercising strategic control and
- t) Reformulating strategies.

1. Hierarchy of strategic intent lays the foundation for the strategic management of any organization. In this hierarchy, the vision, mission, business definition and objectives are established. The strategic intent makes clear what an organization stands for. The element of vision in the hierarchy of strategic intent serves the purpose of stating what an organization wishes to achieve in the long run. The mission relates an organization of society. The business definition explains the businesses of an organization in terms of customer needs, customer groups and alternative technologies. The objectives of an organization state what is to be achieved in a given time period. These objectives then serve as yardsticks and benchmarks for measuring organizational performance.

**Comprehensive Model of Strategic Management Process:**



### Working Model of Strategic Management Process:



2. Environmental and organizational appraisal helps to find out the opportunities and threats operating in the environment and the strengths and weaknesses of an organization in order to create a match between them. In such a manner, opportunities could be availed of and the impact of threats neutralized in order to capitalize on the organizational strengths and minimize the weaknesses.

3. Strategic alternatives and choice are required for evolving alternative strategies out of the many possible options and choosing the most appropriate strategy or strategies in the light to environmental opportunities and threats and corporate strengths and weakness. Strategies are chosen at the corporate level and the business-level. The process used for choosing strategies involves strategic analysis and choice. The end result of this set of elements is a strategic plan which can be implemented.

4. For the implementation of a strategy, the strategic plan is put into action through six sub processes: project implementation procedural implementation, resource allocation, structural implementation, behavioral implementation and functional and operational implementation. Project implementation deals with setting up the organization. Procedural implementation deals with different aspects of the regulatory framework within which Indian organizations have to operate. Resource allocation relates to the procurement and commitment of resources for implementation. The structural aspects of implementation deal with the designing of appropriate organizational structures and systems and reorganizing to match the structure to the needs of the strategy. The behavioral aspects consider the leadership styles for implementing strategies and other issues like corporate culture, corporate politics and use of power, personal values and business ethics and social responsibility. The functional aspects relate to the policies to be formulated in different functional areas. The operational implementation deals with the productivity, processes, people and pace of implementing the strategies. The

emphasis in the implementation phase of strategic management is on action.

5. The last phase of strategic evaluation appraises the implementation of strategies and measures organizational performance. The feedback from strategic evaluation is meant to exercise strategic control over the strategic management process. Strategic may be reformulated, if necessary.

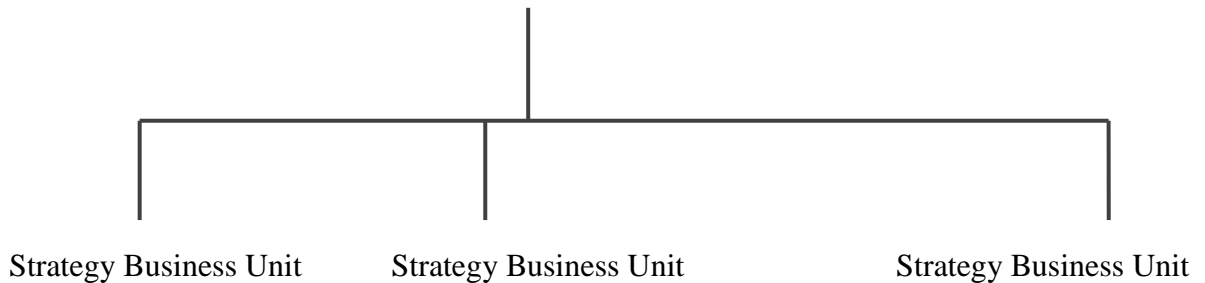
**Q 6. Discuss the different levels and types of strategies and task in strategic management?**

**Ans. 1) Corporate Level Strategy:** It is formulated by top management to decide the actions that the total organization is taking and attempts to determine the roll of each business activities in playing or should play in the organization corporate level strategy defines the long term objectives such as plan about market, products, profitability, return on investment technological leadership. E.g. Amul Butter

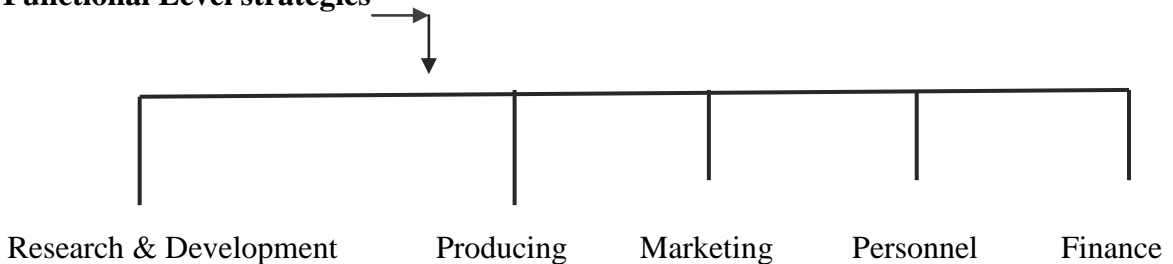
**2) Business unit strategy:** It formulate the comprehensive general program the budget and the policy through which a business unit is intense to achieve its long term objective i.e. corporate level strategy in an over changing. Environment is called the business unit level strategy. The major activities in business unit level strategy involves product development, market development, innovation and diversification, e.g. different products of Amul Butter, Amul Bite

**3) Functional Level Strategies:** It creates the frame work for the management of functions such as finance, research and development, production material, personnel and marketing. These strategies confirm to the business unit level strategies.

**Corporate level Strategy → Multi – Business Organization**



**Functional Level strategies**



**Q 7. Explain the concept of business objective & what are the main ingredients of the same? (2008)**

**Ans.** Objectives play an important role in strategic management. We could identify the various facets of such a role as shown below:

- Objectives define the organization's relationship with its environment. By stating its objectives, an organization commits itself to what it has to achieve for its employees, customers and society at large.
- Objectives help an organization to pursue its vision and mission. By defining the long-term position that an organization wishes to attain and the short-term targets to be achieved objectives help an organization in pursuing its vision and mission.
- Objectives provide the basis for strategic decision making. By directing the attention of strategists to those areas where strategic decisions need to be taken, objectives lead to desirable standards of behavior and in this manner, help to coordinate strategic decision making.
- Objectives provide the standards for performance appraisal. By stating the targets to be achieved in a given time period, and the measures to be adopted to achieve them, objectives lay down the standards against which organizational as well as individual performance could be judged. In the absence of objectives, an organization would have no clear and definite basis for evaluating its performance.

**Characteristic of Objectives:**

Objectives, as measures of organizational behavior and performance, should possess certain desirable characteristics in order to be effective. Given below are seven such characteristics.

1. Objectives should be understandable. Because objectives play an important role in strategic management and are put to use in a variety of ways, they should be understandable to those who have to achieve them. A Chief executive who says that "something ought to be done to set things right" is not likely to be understood by his managers. Subsequently, no action will be taken, or even a wrong action might be taken.

2. Objectives should be concrete and specific. To say that ‘our company plans to achieve a 12 percent increase its sales’ is certainly better than stating that ‘our company seeks to increase its sales. The first statement implies a concrete and specific objective and is more likely to lead and motivate the managers.

3. Objectives should be related to a time frame. If the first statement given above is restated as ‘our company plans to increase its sales by 12 percent by the end of two years’. It enhances the specificity of the objective. If objectives are related to a time frame, then managers know the duration within which they have to be achieved.

4. Objectives should be measurable and controllable. Many organizations perceive themselves as companies which are attractive to work for. If measures like the number and quality of job applications received, average emoluments offered, or staff turnover per year could be devised, it would be possible to measure and control the achievement of this objective with respect to comparable companies in a particular industry and in general.

5. Objectives should be challenging. Objectives that are too high or too low are both Demotivating and therefore, should be set a challenging but not unrealistic levels. To set a high sales target in a declining market does not lead to success. Conversely a low sales target in a burgeoning market is easily achievable and therefore leads to a suboptimal performance.

6. Different objectives should correlate with each other. Organizations set many objectives in different areas. If objectives are set in one area disregarding the other areas such an action is likely to lead to problems. A classic dilemma in organizations and a source of interdepartmental conflicts, is setting sales and production objectives.. Marketing departments typically insist on a wider variety of products to cater to a variety of market segments while production departments generally prefer to have greater product uniformity in order to have economies of scale. Obviously, trade-offs are required to be made so that different objectives correlate with each other, are mutually supportive and result in synergistic advantages. This is especially true for organizations which are organized on a profit centre basis.

7. Objectives should be set without constraints. There are many constraints-internal as well as external which have to be considered in objective setting. For example, resource

availability is an internal constraint which affects objective setting. Different objectives compete for scarce resources and trade offs are necessary for optimum resource utilization. Organizations face many external constraints like legal requirements, consumer activism and environmental protection. All these limit the organization's ability to set and achieve objectives.

1. Specificity, Objectives may be stated at different levels of specificity. At one extreme, they might be very broadly stated as goals while at the other they might be specifically stated as targets. Many organizations state corporate as well as general, specific, functional and operational objectives. Note that specificity is related to the organizational levels for which a set of objectives has been stated. Indian Airlines stated corporate general, as well as particular objectives. One of its corporate objectives was to meet the demand for reliable, economic and efficient air transport through high standards of service. One of the general objectives, in the financial area, was to generate a specific amount of resources every year not only for meeting existing requirements but also to provide for growth. The issue of specificity is resolved through stating objectives at different levels, and prefixing terms such as corporate, general and particular so that they serve the needs for performance and its evaluation.

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

3. Periodicity. Objectives are formulated for different time periods. It is possible to set long-term, medium-term and short term objectives. Generally organizations determine objectives for the long and short-term whenever this is done objectives for different time periods have to be integrated with each other. Long-term objectives are, by nature, less certain and are therefore stated in general terms. Short term objectives, on the other hand are relatively more certain, specific and comprehensive. One long-term objective may

result in several short-term objectives, on the other hand, are relatively more certain, specific and comprehensive. One long-term objective may result in several short-term objectives, many short-term objectives coverage to form a long term objective. For example, a long term objective may be continual profitability. Short term objective which support continual profitability may be the return on investment, profit margin, return on net worth, and so on, computed on a yearly basis.

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

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

6. Quality, Objectives may be both good and bad. The quality of an objective can be



judged on the basis of its capability to provide a specific direction and a tangible basis for evaluating performance. An example of a bad objective is : ‘to be the market leader in our industry,’ It is insufficient with respect to its measurability. To restate the same objective as : ‘To increase market share to a minimum of 40 percent of the total with respect to Product A over the period of the next two years and to maintain it thereafter’ turns it into a good objective since it is specific, relates to performance, is measurable and provides a definite direction.

### **What objectives are set?**

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

### **How are Objectives Formulated?**

Organizations need to set objectives at different levels, of various types and for different time periods, and that such objectives should possess certain desirable characteristics and should resolve certain issues before being used.

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

1. The forces in the environment. These take into account all the interests some time coinciding but often conflicting – of the different stakeholder in an organization. Each group of stakeholders whether they are company employees, customers or the government put forward a set of claims or have expectations that have to be considered in setting objectives. It is important to note that the interests of various stakeholders may change from time to time, necessitating a corresponding shift in the importance

attached to different objectives.

2. Realities of enterprise's resources and internal power relationships. This means that objectives are dependent on the resourced capability of a company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources. Resource both material and human, place restrictions on the objective-achieving capability of the organization and these have to be considered in order to set realistic objectives. Internal power relationships have an impact on objectives in different ways. A dominant group of strategists, such as, the board of directors, or an individual strategist, such as a chief executive, may wield considerable power to set objectives in consonance with their respective views. Again, since poor configurations within a firm are continually changing, the relative importance attached to different objectives may also vary over a period of time.

3. The value of system of the top executive, this has an impact on the corporate philosophy that organizations adopt with regard to strategic management in general and objectives in particular. Values, as an enduring set of beliefs, shape perceptions about what is good or bad, desirable or undesirable. This applies to the choice of objectives too. For example, entrepreneurial values may result in prominence being given to profit objectives while a philanthropic attitude and values of social responsibility may lead to the setting of socially oriented objectives.

4. Awareness by management. Awareness of the past objectives and development of a firm leads to a choice of objectives that had been emphasized in the past due to different reasons. For instance, a dominant chief executive lays down a set of objectives and the organization continues to follow it, or deviates marginally from it in the future. This happens because organizations do not depart radically from the paths that they had been following in the recent past. Whatever changes occur in their choice of objectives take place incrementally in an adaptive manner.

**Q 8. Explain rationale of company to take over another company? (2008)**

**Ans. Rationale for Restructuring:**

The rationale for restructuring is at two levels. The first is a deeper level reasoning relating to the fundamental ways in which organizations work. The second is a more practical reasoning that attempts to analyse the changes in the environment and the organization and relate such changes to strategic actions that organizations need to take.

Peter Drucker states that organizations have implicit or explicit 'theories' for their business, incorporating assumptions about:

- a. The environment, specifically markets, customers and important technologies
- b. The mission or purpose
- c. Core (content) competencies required to fulfill the mission

Drucker further states that these assumptions must be realistic, congruent, communicated and understood. These assumptions need to be evaluated regularly and rigorously so that they prove to be correct.

Environmental changes, such as the one we are witnessing around the world and in India, are causing organizations to revise their assumptions and mental models. It is for this reason that restructuring is being done at various levels so that organizations and the strategies they employ are aligned with the environmental realities.

The second way to understand the rationale for restructuring is to note that, in the past, diversification had been the preferred route for growth and expansion for companies around the world.

**Q 9. What could be the probable contents of a competitor profile? Take any company of your choice and identify its main competitor and compare the strengths and weakness of this company with that of its competitor.**

**OR**

**Competitors are important participants of any business & as such they must be considered in formulating the organization strategies. Prepare a competitor profile for any business organization of your choice? (2008, 2011)**

**Ans:** While industry analysis and strategies group analysis focus on the industry as a whole or on subsets of firms within an industry, competitor analysis focuses on each company with which a firm competes directly. Competitor analysis, therefore, deals with the actions and reactions of individual firms within an industry or strategic group. It becomes specially important in the case of oligopolistic industries where there are a few powerful competitors and each needs to keep track of the strategic moves of the others. According to Porter, the purpose of conducting a competitor analysis is to:

- Determine each competitor's probable reaction to the industry and environmental changes.
- Anticipate the response of each competitor to the likely strategic moves by the other firm, and develop a profile of the nature and success of the possible strategic changes each competitor might undertake.

**Components of competitor analysis:**

A competitor response profile can be built on the basis of the four components of competitor analysis. These four components are future goals of competitor, its current strategy, the key assumptions that the competitor makes about itself and about the industry and its capabilities in terms of strengths and weaknesses.

Future goals of competitor deals with questions such as these: how do our goals compare to our competitors goals? Where will emphasis be placed in the future? What is the attitude toward risk?

Current strategy of competitor deals with questions such as these: How are we currently competing? Does this strategy support changes in the competition structure?

Key assumption made by the competitor deal with questions such as these: Do we assume that the future will be volatile? Are we operating under a status quo? What

assumption do our competitors hold about the industry and about themselves?

Capabilities of competitor deal with questions such as these: What are our strengths and weaknesses? How do we rate compared to our competitors?

Based on a thorough analysis of these components, a response profile can be prepared for each competitor that can help predict their likely strategic moves which can be either of an offensive or defensive type. The response profile could be based on a firm posing questions such as these to itself: What will our competitors do in the future? Where do we hold an advantage over our competitors? And, how will this change our relationship with our relationship with our competitors? The information collected in the response profile is a vital input for the purpose of business strategy formulation by any organization.

The FMCG industry in general, where competitiveness in several subsectors such as soaps and detergents, cosmetics, bakery and confectionery products and others, has increased by leaps and bounds. It is in such a scenario that competitor analysis becomes relevant.

Looking to the moves and countermoves of the top two companies it is observed that Asian Paints dominated the decorative paints segment of the paints industry in India with a market hare of 40 percent. Good lass Nerolac was the market leader in the industrial paints segment with a 45 per cent market share. Generally the companies in the Indian paints industry were attempting to crate a balance among the two segments so that they did not face the extreme demand fluctuations of either of the two segments. Good lass Nerolac's changes of business strategy by refocusing on the decorative paints segment in order to take advantage of its brand value can be seen in this context. This move constituted a competitive threat to others, specially Asian Paints. Among the two, Asian Paints was stronger in terms of cost reduction, marketing and distribution infrastructure and global reach.

There is very less information available regarding the means adopted by companies to keep track of their competitors. But many executives and industrialists admit that they do rely on their marketing intelligence systems to collect information regarding the probable strategic moves of their competitors. Besides this, companies tap various format as well as informal sources for the purpose.

Competitor analysis is important because competitive forces shape the strategies adopted by rivals and because these strategies of rival firms, in turn, shape the competitive forces. It is useful for a firm if it takes the results of competitor analysis into account while exercising a strategic choice.

**Q 10. Generic strategy is combination of competitive strategy and competitive scope in Broad and Narrow segments. Explain the salient features of the same. When should a company employ ‘STUCK IN THE MIDDLE’ strategy? (2009)**

**OR**

**In Business level strategies, Porter’s generic theory is very important discuss the difference in strategic approach in cost leadership, differentiation & focus strategy. How does hybrid strategy fit into this structure & can it be successful? (2010, 2011, 2012)**

**OR**

**Explain term: I. Cost Based strategy**

**II. Niche Based strategy (2011)**

**Ans .** We could classify business strategies into the following three types:

1. Cost leadership (lower cost/broad target)
2. Differentiation (differentiation /broad target)
3. Focus (lower cost or differentiation /narrow target)

<b>Porter’s Generic – Business Strategies</b>			
<b>COMPETITIVE SCOPE</b>	Broad target	Cost leadership	Differentiation
	Narrow target	Focused cost leadership	Focused differentiation
		Low cost Products / services	Differentiated products / services
		<b>COMPETITIVE ADVANTAGE</b>	

**Cost Leadership Business Strategy:-**

When the competitive advantage of a firm lies in a lower cost of products or services relative to what the competitors have to offer, it is termed as cost leadership. The firm outperforms its competitors by offering products or services at a lower cost than they can. Customers prefer a lower cost product particularly if it offers the same utility to

them as the comparable products available in the market have to offer. When all firms offer products at a comparable price, then the cost leader firm earns higher profit owing to the low cost of its products. Cost leadership offers a margin of flexibility to the firm to lower price if the competition becomes stiff and yet earn more or less the same level of profit.

**Achieving cost leadership:** Several actions could be taken for achieving cost leadership.

An illustrative list of such actions is as below:

1. Accurate demand forecasting and high capacity utilization is essential to realize cost advantages.
2. Attaining economies of scale leads to lower per unit cost of product/ service.
3. Aiming at the average customer makes it possible to offer a generalized set of utilities in a product/service to cover a greater number of customers.
4. Investments in cost saving technologies can help a firm to squeeze every extra paisa out of the cost making the product service competitive in the market.
5. Withholding differentiation till it becomes absolutely necessary is another way to realize cost-based competitiveness.

**Condition under which cost leadership use:**

1. The markets for the products/service operate in such a way that price based competition is vigorous making costs an important factor.
2. The product/service is standardized and its consumption takes place in such a manner that differentiation is superfluous.
3. The buyers may be numerous and possess a significant bargaining power to negotiate a price reduction from the supplying firm.
4. There is lesser customer loyalty and the cost of switching from one seller to another is low. This is often seen in the case of commodities or products that are highly standardized.

**Benefits of cost leadership business strategy:**

1. Cost advantage is possibly the best insurance against industry competition.
2. Powerful suppliers possess a higher bargaining power to negotiate price increase for



inputs.

3. Powerful buyers possess cost advantage can offer price reduction to some extent in such as case.
4. The threat of cheaper substitutes can be offset to some extent by lowering prices.
5. Cost advantage acts as an effective entry barrier for potential entrants who cannot offer the product/service at a lower price

**Limitations of cost leadership business strategy:**

1. Cost advantage is ephemeral. The duplication of cost reduction techniques makes the position of the cost leader vulnerable from competitive threats.
2. Cost leadership is obviously not a market friendly approach. Often severe cost reduction can dilute customer focus and limit experimentation with product attributes.
3. Depending on the industry structure, sometime less efficient producers may not choose to remain in the market owing to the competitive dominance of the cost leader. In such a situation the scope for product/service may get reduced, affecting even the cost leader adversely.
4. Technological shifts are great threat to cost leader as these may change the ground rules on which an industry operates. The older players in the industry may be left with obsolete technology that now proves to be costlier.

**Differentiation Business Strategy:-**

A differentiated product/service stands apart in the market and is distinguishable by the customers for its special features and attributes. A differentiation firm can charge a premium price for its products/service, gain additional customers who value the differentiation and command customer loyalty. Profits for the differentiator firm come from the difference in the premium price charged and the additional cost incurred in providing the differentiation. To the extent the firm is able to offer differentiation by maintaining a balance between its price and costs, it succeeds. But it may fail if the customers are not longer interested in the differentiated features, or are not willing to pay extra for such features.

**Achieving differentiation:** The key to achieving differentiation is to create value for the customer that is unmatched by the competitors at the price at which the differentiator firm offers its products/services. This is done through incorporating features and attributes in the products/service valued by the customers. These features and attributes could be created at any point on the value chain. For instance, a firm could use high quality raw material inputs, superior process technology, speedy and reliable distribution or better after sale support. I may offer the backing of the solid reputation of the producer or the strength of a brand name.

**Conditions under which differentiation is used:** A differentiation business strategy is suitable for special conditions, primarily related to the markets and customers. The major conditions under which differentiation business strategies could be employed are given below:

1. The market is too large to be catered to by a few firms offering a standardized product/service.
2. The customer needs and preferences are too diversified to be satisfied by a standardized product/service.
3. It is possible for the firm to charge a premium price for differentiation that is valued by the customer.
4. The nature of the product/service is such that brand loyalty is possible to generate and sustain.
5. There is ample scope for increasing sales for the product/service on the basis of differentiated features and premium pricing.

**Benefits of differentiation business strategy:**

1. Firms distinguish themselves successfully on the basis of differentiation thereby lessening competitive rivalry. Customer brand loyalty too acts as safeguard against competitors. Brand loyal customers are also generally less price sensitive.
2. Differentiation is an expensive proposition. Newer entrants are not normally in a position to offer similar differentiation at a comparable price. In this manner, differentiation acts as a formidable entry barrier to new entrants.
3. For similar reasons as in the case of never entrants, substitute product/service suppliers too pose a negligible threat to established differentiator firms.

### **Focus Business Strategy:-**

Focus business strategies essentially rely on either cost leadership or differentiation but cater to a narrow segment of the total market. In terms of the market, therefore focus strategies are niche strategies.

**Achieving Focus:** Focus is essentially concerned with identifying a narrow target in terms of markets and customers. An illustrative list of measures that a focused firm can adopt is as below:

1. Choosing specific niches by identifying gaps not covered by cost leaders and differentiators.
2. Creating superior skills for catering to such niche markets.
3. Creating superior efficiency for serving such niche markets.
4. Achieving lower cost/differentiation as compared to the competitors while serving such niche markets.
5. Developing innovative ways to manage the value chain which are different from the ways prevalent in an industry.

### **Conditions under which focus strategy is used:**

1. There is some type of uniqueness in the segment, which could either be geographical, demographic, or based on lifestyle. Only specialized attributes and features could satisfy the requirements of such a segment.
2. There are specialized requirements for using the products or services that the common customers cannot be expected to fulfill.
3. The major players in the industry are not interested in the niche as it may not be crucial to their own success.
4. The focusing firms have the necessary skill and expertise to serve the niche segment.

### **Benefits of focus business strategy:**

1. A focused firm is protected from competition to the extent that the other firms which have a broader target do not possess the competitive ability to cater to the niche markets.
2. Focused firms buy in small quantities, so powerful suppliers may not evince much interest

3. Powerful buyers are less likely to shift loyalties as they might not find others willing to cater to the niche markets as the focused firm do.
4. The specialization that focuses firms are able to achieve in serving a niche market acts as a powerful barrier to substitute products/services that might be available in the market.

**Limitation of focus business strategy:**

1. Serving niche markets requires the development of distinctive competencies to serve those markets.
2. Being focused means commitment to a narrow market segment.
3. A major risk for the focused firm lies in the cost configuration.
4. Niches are often transient. Sometimes the rising costs of niche products may cause the customers to move to the lower priced products of cost leaders.
5. Niches may sometimes become attractive enough for the bigger players to shift attention to them.

**Combination / Hybrid / Stuck in Middle business Strategy:-**

These generic strategies are necessary compatible with one another. If a firm attempts to achieve an advantage on all the front, in this attempt it may achieve no advantage at all. For example, if a firm differentiates it by supplying very quality product, it may risks underdetermine quality. If it seeks to become a cost leader, even if quality didn't suffer the firm will risk projecting confusing image.

For this reason Michael Porter argued that to be successful over a long term, firm must select only one of these three strategies. Otherwise with more than one single generic strategy the firm will be "Stuck in Middle" & will not achieve competitive advantage. An organization pursuing differentiation strategy seeks competitive advantage by offering product or services that are unique or rivals, either through design, brand image, technology, and customer service.

Alternatively an organization pursuing a low cost leadership strategy attempts to gain competitive advantage, base on being the overall low cost producer of product or service. However there exists a viewpoint that a single generic strategy is not always

best because within same product customer often seek, multidimensional satisfaction such as combination of quality, style & price.

**E.g.1:** Researcher suggests that in same case it possible to be a cost leader while maintaining differentiated product. South west airline has combine cost cutting measures with differentiation. The company has been able to reduce cost by not assigning sitting, by eliminating meals in its plane. It has been able to promote in its advertising that, “One does not get tasteless airline food on its flight”. Its fare has been low enough to attract significant number of passenger, allowing airline to success.

**E.g.2:** During year 1991 Nike achieve the turnaround by cutting cost & developing new & distinctive product. Nike reduces the cost by cutting some of its endorsement. Also the company eliminated endorsement cost on Italian soccer team thus saving 100mn\$. Firing 7% of its 22,000 employee allowed company to reduce cost by another 200mn\$. While cutting cost firm also introduce new product, design to differentiate Nike product from those of competitor.

**Q 11. Explain how in value chain analysis, which is an internal analysis useful in identification of distinctive competencies in a business origination in formula sing various business strategies? (2009, 2010, 2011, 2012)**

**OR**

**In today's competitive world the survival as well as will to excel depends upon effective combination of supply chain management, value chain concept, strategic cost management & CRM?**

**OR**

**Explain all four strategies through value chain & PLC concept? (2009)**

**Ans.** According to porter, the business of a firm can best be described as value chain, in which total revenue minus total costs of all activities undertaken to develop & market a product or services yields value. All firms in a given industry have a similar value chain, which includes activities such as obtaining raw materials, designing products, building manufacturing facilities, developing cooperative agreement & providing customer service. A firm will profit as long as total revenues exceed the total costs incurred in creating & delivering the product or service firms should strive to understand not only their own value chain, operations, but also their competitors, suppliers & distributors value chains.

**Value chain analysis (VCA)** refers to the process whereby a firm determines the costs associated with organizational activities from purchasing raw material to manufacturing products to marketing those products. VCA aims to identify where low-cost advantages or disadvantages exist anywhere along the value chain from raw material to customer service activities. VCA enable a firm to better identify its own strengths and weaknesses, especially as compared to competitors value chains analyses & their own data examined over time.

Substantial judgment may be required in performing a VCA because different items along the value chain may impact other items positively or negatively, so their exist complex relationships. E.g exceptional customer service may be especially expensive ye may reduce the cost of returns & increase revenues. Cost and price difference among rival firms can have their origins in activities performed by suppliers, distributors, creditors or even shareholders, Despite the complicity of VCA, the initial step in

implementing this procedure is to divide a firm's operations into specific activities on business process. The analyst attempts to attach a cost to each discrete activity & the costs could be in terms of both times money. Finally, the analyst converts the cost data into information by looking for competitive cost strength & s weaknesses that may yield competitive advantage or disadvantage. Conducting VCA is supportive of the RBV's examination of firms' assets and capabilities as sources of distinctive competence.

When a major competitor or new market entrant offers products or service at very low prices, this may be because that firm has substantially lower value chain costs or perhaps the rival firm is just waging a desperate attempt to gain sales or market share. Thus VCA can be critically important for a fireman monitoring whether its prices and costs are competitive (e.g. is given on the next page)

Value chain differs immensely across industries and firms. Whereas a paper products company, such as stone container, would include on its value chains timber farming, logging, pulp mills and papermaking, a computer company such as Hewlett- Packard would include programming, peripherals, software, hardware and laptops. A motel would include food, housekeeping chin-in & check-out operations, website, reservations systems etc.

**Illustration :-A value chain for a Typical Manufacturing Company**

<b><u>Supplier Costs</u></b>
Raw material
Fuel
Energy
Transportation
Truck Drivers
Truck Maintenance
Components Parts
Inspection
Storing
Warehouse

**Production Costs**

Inventory

Plant Layout

Maintenance

Plant Location

Computer

R & D

Cost Accounting

**Distribution Costs**

Loading

Shipping

Budgeting

Personnel

Internet

Trucking

Railroads

Fuel

Maintenance

**Sales & Marketing**

Sales Persons

Website

Internet

Publicity

Promotion

Advertising

Transportation

Food & Lodging

**Customer Service Cost**

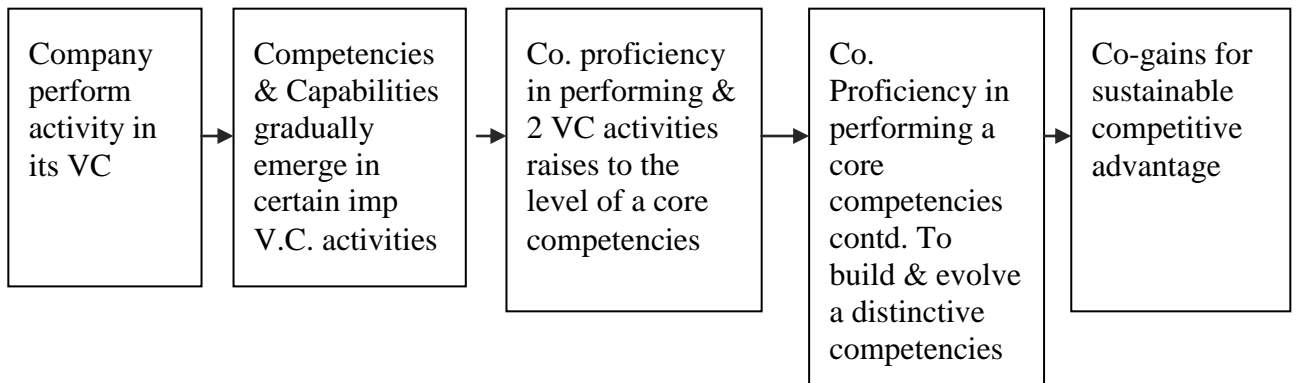
Postage

Phone



Internet
Warranty
<b>Management Costs</b>
HR
Admin
Employees benefits
Labour Relations
Managers
Employees
Finance Legal

All firms should use value-chain systems (VCA) to develop & nurture core competence & convert this competence into a distinctive competence. A core competence evolves into a major



**Translating Company performance of VC activities into competitive advantage:-**

More and more companies are using VCA to gain and sustain competitive advantage by being specially efficient and effective along various parts of the value chain e.g. Wal-Mart has built powerful value advantages by focusing on exceptionally tight inventory control volume purchasing of products & offering exemplary customer service.

## **Q 12. What is PESTLE Analysis?**

**Ans.** PESTLE (Analysis) is an acronym for

P → Political	Like SWOT analysis the PESTLE analysis
E → Economic	is simple, quick and use 4 key perspectives
S → Social Cultural	
T → Technological	
L → Legal	
E → Environment	

The advantage of this tool is that it encourages management into proactive structured thinking in its decision making. PESTLE analysis involves identifying the political economic, socio-cultural and technological influences on an organization and providing a way of auditing the environmental influences that have impacted on an organization or policy in the past and how they might do so in future.

Increasingly when carrying out analysis of environmental or external influences, legal factors have been separated out from political factors. The increasing acknowledgement of the significance of environmental factors has also led to environment becoming a further general category, hence PESTLE analysis becoming an increasingly used and recognized term, replacing the traditional 'PEST' analysis.

### **The PESTLE Matrix**

The first step is to identify the issue remember focus is very important. Make up your own PESTLE questions and prompts to suit the issue being analyzed and the situation. Shortlist those are important

### **Making it more scientific**

The PESTLE analysis can be converted into a more specific instrument by giving a weight age & a score to the items in each of the sections for each of the identified options that the firm has to consider. For each of the item in each segment of the PESTLE chart, we can give a score on a scale of 1 to 100. Some factors will be more important than the others. Make sure the total weights add up to 100. In case we are looking at options, the next step is to list all the options that we are considering. Give

marks to each specific option.

<p><b><u>Political</u></b></p> <ul style="list-style-type: none"> <li>• Ecological/environmental issues</li> <li>• Future laws</li> <li>• Current laws</li> <li>• Govt polities</li> <li>• Regulatory bodies</li> <li>• Trading policies</li> </ul>	<p><b><u>Economic</u></b></p> <ul style="list-style-type: none"> <li>• Economy situation trends</li> <li>• Taxation specific to products</li> <li>• Market &amp; trade cycles</li> <li>• Customer end user drivers</li> <li>• Interest &amp; Exchange rates</li> </ul>
<p><b><u>Social</u></b></p> <ul style="list-style-type: none"> <li>• Life style trends</li> <li>• Demographics</li> <li>• Consumer attitudes &amp; opinion</li> <li>• Brand &amp; co's technology</li> <li>• Consumer buying pattern</li> <li>• Ethnic religious factors</li> </ul>	<p><b><u>Technological</u></b></p> <ul style="list-style-type: none"> <li>• Replacement technology or solution</li> <li>• Maturity of technology</li> <li>• Innovation potential</li> <li>• Technology access licensing, patents.</li> </ul>
<p><b><u>Legal</u></b></p> <ul style="list-style-type: none"> <li>• International Law</li> <li>• Employment law</li> <li>• Competition law</li> <li>• Health safety law</li> <li>• Regional legislation</li> </ul>	<p><b><u>Environmental</u></b></p> <ul style="list-style-type: none"> <li>• Environmental Impact</li> <li>• Environmental legislation</li> <li>• Energy consumption</li> <li>• Waste disposal</li> </ul>

**[THE PESTLE MATRIX]**

Multiple the marks with the weight age factor and then add the total score for each option. “The higher the score is more attractive the option.” The PESTLE analysis is a useful business measurement tool for understanding the competitive environment of the firm, on completion of PESTEL analysis, the short listed options can be examined using a SWOT analysis. “PESTLE is useful before SWOT – not generally the other way round”.

**Q 13. Define Mergers & Acquisition. Why it is done? What are the benefits / limitations? Is any strategy required for Merger & Acquisition?**

**OR**

**Why is a SWOT analysis a prerequisite before the merger & acquisition process starts? What are the several benefits derived by this analysis & when do merger fail? (2009, 2011-SN, 2012)**

**Ans.** Merger and Acquisition are two commonly used ways to pursue strategies. A merger occurs when two organization of about equal size unite to form one enterprise. An acquisition occurs when a large organization purchases (acquires) a smaller or vice-versa. When a merger or acquisition is not desired by both parties, it can be called a takeover or hostile takeover.

Mergers and acquisitions are also methods of diversification. Takeovers and mergers sometimes been a dominate means of implementing strategies; there can be real advantages, particularly if there is a good fit between the organizations. Synergy can occur although less often the expected. The disadvantages of mergers are that they can result in operational & psychological issues which can distract the people. Who have ti make them work?

In 1998 merger of ICICI and ICICI BANK was one that is reshaping the definition of lending institutions in India. Another example of a merger is the case of Lockheed and martin-Marietta corp. They merged to form Lockheed-Martin.

In recent years we have seen many hostile acquisitions in which the organization buying acquired did not want to be bought. These are referred to as takeovers. It is natural for the target organizations management to try to resist the takeover. Takeover or acquisition is popular strategic alternative. Ispat International N.V. is a company that started as small wire rod manufacture in Indonesia & has grown into the world's largest steel maker through an acquisition strategy. Where it focused on acquiring companies that use DRI process in the manufacture of steel. Many Indian companies have adopted this route to grow e.g. the R. P. Goenka group of companies has used this as a high growth strategy. Their net worth of has gone upon from 70 Cr in 1979 to Rs.5500 Cr. In 1994. In short period of 15 years, he acquired CESC, Harrisons Malayalam, Wiltech, & HMV.

Nicholas Piramal was formed when the Piramal group acquired Nicholas laboratories, a small formulations Co. in 1988 from Sara Lee. Since then it followed a strategy of planned acquisitions to develop & consolidate its strength in marketing to therapeutic niches. Ajay Piramal built Nicholas Piramal unto one of the fastest growing companies in India through a string of acquisitions that include Roche, Boehringer, Hoechst's R & D facility, Lacto Calamines OTC products & bulk drugs of Sumitra Pharmaceuticals & Chemicals. Nicholas Piramals consolidated net sales turnover have gone upto Rs.19 Cr in 1988 & Rs.1418 Cr In 2004. While profits have grown from 80Lacs to 200 Cr, increasing about 220 times in a period of 16 years.

Acquisitions can either be for value creation. Many of the acquisitions that took place in the 70's & 80's were based on the concept of value capture. The Chhabrias e.g. were attracted to acquisitions because either they were buying cheap or they were getting tax incentives or credits from the Govt. or that they could sell the assets. On the other hand the sale of TOMCO to Hindustan lever was based on a value creation concept to support & strengthen its core detergent business. The larger challenge of the acquisition lay in integrating the operations of the 2 companies for synergy.

### **Why do Mergers and Acquisitions Happen?**

M & A are fast becoming one of the key drivers of growth in Indian Industry. The year 2004-2005 saw M & A deals to the value of over Rs.2000 Cr (20 bn) an increase in activity from the previous years. Since M & A are voluntary decisions by management, one would expect them to represent positive net present value (NPV) strategies towards the goal of maximizing shareholders wealth. Several principles form the basis for the value addition absorbed in M & A activity in some cases the underlying cause is clear, in other it may be impossible to distinguish between 2 or more possible sources. Trutwien summarizes the theories of merger motives into 5 major theories.

- 1. Efficiency Theory:** With the merger of 2 companies there is a possibility of lower unit costs, stronger purchasing power or gaining of management efficiencies. The differential efficiency theory argues that there are differences in the efficiencies of management between companies. Hence when firms merge the less efficient firm will be brought to the level of the more efficient firm. Efficiency theories also provide the rationale for synergy in mergers.

- 2. Monopoly or Market Power Theory:** A significant motive for M & A as is that it helps to increase the firms market power through increase in size (market share) increase in market shares leads to an increase in industry concentration, which provides firms with greater growth opportunities through access to better technology, control over demand & supply of intermediating products & services, or the power to set prices, establish industry norms (dominant designs) in technology or (best practices) customer service. The acquiring firm can gain market power through collusive synergy or through competitor interrelationship.
- 3. Raider Theory:** Focus on how an acquirer with no strategic intent popularly known as private equity funds (whose motive is to earn financial returns from investments) acquires a controlling stake in a Target firm to transfer wealth from the target company stockholders to the acquirer stockholders. The primary value that raiders add would be to acquire distressed firms with inappropriate capital structures & restructure them to make them more efficient.
- 4. Information or Valuation Theory:** Since there is an information asymmetry between financial statements and the public information incorporated in the stock price new information may be disclosed during a merger deal. Information theories refer to the revaluation of the firm through disclosure of new information during the merger negotiations, the tender offer process, or planning for strategic alliance /joint venture.
- 5. Empire Building or Agency Theory:** Jerrson's Mackling formulated the implications of agency problem, Agency problem occur when the separation of ownership & management leads the management to work towards their personal benefit rather than the benefit of owners. Agency problem also give rise to merger motives of the empire building theory.

### **Market Entry Strategy:**

MNC, use acquisitions of domestic companies as an effective market entry strategy. Through M & A, MNCs not only get access to the domestic market, they also gain significant local capabilities to create and deliver their products & services. Commenting on the Steel deal, B. Muthuraman, M.D. Tata Steel said, "The acquisition of the steel business of NatSteel is an important step in Tata Steel's plans to build a global business

NatSteel's business provide Tata Steel access to key Asian steel markets including China.”

There are many reasons for M & A including the following:

1. To provide improved capacity utilization
2. To make better use of existing sales force.
3. To reduce Tax obligation
4. To gain new technology
5. To reduce managerial staff
6. To gain access to new suppliers, distributors, customers products & creditors.

**Q 14. A turnaround strategy is used for converting a failed company or a sick company into a successful company? Discuss the action plan of a sick unit.**

**OR**

**“The world is suffering from recession today” said Dr. J G the Turn-around strategist. Take company of your choice & assume that this company is suffering from effect of recession. Please explain as to what step this company should take to ride over this recessionary trend in market? (2008)**

**Ans.** Many companies restructure their operation diverting themselves of their diversified activities, because they wish to focus more on their core business area. An integral part of restructuring, therefore is the development of strategy for turning around the company’s core or remaining business areas. Following are the steps taken by organizations.

1. Identifying the causes of the failure.
2. Developing strategies for successful turn-around.

1. The cause of the failure can be identified either by evaluation & performance. i.e. evaluating the process, performance measurement or Auditing the firms objectives, goals, strategies the cause of failure could be.

a. Poor management : it involves many sins, like, neglect of core businesses, insufficient number of good manager, bad leadership.

b. Over Expansion : Rapid expansions or diversification & poor controls on finances.

c. Inadequate financial controls : Employing excess staff, spending beyond requirement.

d. High Costs: Inadequate financial control can lead to high costs. Causes could be low labour productivity management’s failure to introduce labour saving technology. High salaries of employees, failure to realize economy of scale, low market share.

e. New Competition : Many companies have failure because of unable to face threats of competitors. Therefore, new competition kills, idle companies in the business world.

f. Unforeseen Demand shifts: Environment threat like marketing, technology, political, social, legal cultural environment can change open market opportunities for new products. Its consequence is the unforeseen demand shifts from old to new products. Therefore, customer has preference to buy new product at a low cost. When companies have failure to fulfillment of the above fact then have a failure in the business world.



g. Organizational Inertia : The emergence of powerful new competition & unforeseen shifts in demand might not be enough to cause corporate decline. Organization is slow to respond to environmental changes.

**Main Elements of Successful turnaround Strategies:**

1. Changing leadership

2 Redefining strategic focus

3. Assets sales & closures.

4. Acquisitions.

5. Improving Probability

Improving probability involves number of steps to improve efficiency, quality, innovation & customer responsiveness. It involves.

a. Layoffs white & blue collar employee

b. Investment in labour saving equipment

c. Tightening financial control

d. Assessment of profit responsibility to individuals & subunits within the company by a change of organizational structure of necessary.

e. Cutting back on marginal products.

f. Re-engineering business process to cut costs & boost productivity.

g. Introducing total quality management (TQM).

**Q 15. Discuss Porter's Model on Strategy development & Competitive Analysis.**

**OR**

**Explain how Michal porter's five forces model is helpful in fourth coming SWOT analysis carried out in formulation of business strategy? (2009, 2010, 2011, 2012)**

**Ans.** Porters five forces model of competitive analysis is a widely used approach for developing strategies in many industries. The intensity of competition among firms varies widely across industries. According to porter, the mature of competitiveness in a given industry can be viewed as a composite of 5 forces.

**1. Rivalry Among Competing Firms:-**

**(a) Number of Competitors** – Higher the number of competitors, higher the struggle for the market share leading to indiscriminate poaching even at otherwise prohibitive costs.

**(b) Industry Growth Rate** – This happens in later stages of product life cycle when product demand begins to stabilise or even decline after peaking while new entrants continue to set up additional capacities without observing the life cycle stage of the product, leading to overcapacity

**(c) Intermittent Industry Overcapacity** – It is again a common phenomenon. This phenomenon is most prominent in agriculture. One season, there will be scarcity of, say, pulses and therefore very high prices. Attracted by the good prices, there will be increased acreage under pulses cultivation. And then due to oversupply of pulses, the prices will not be adequate even to recover the costs. Having suffered huge losses, farmers will switch the crop next year and there will be scarcity of pulses once again and the cycle continues.

**(d) Exit Barriers** – If exist routes are not available, existing players will continue to attempt to garner larger market share through price cuts or discounts etc.

**(e) Diversity of Competitors** – Rivalry becomes intense with diversity of competitors. Say, a product is being supplied by manufactures from across the world. Each supplier has a different cost advantage, different problems, different govt policies, and so on. On the other hand suppliers have no common forum to meet and plan their strategy against arbitrary damaging actions by individual player.

**(f) Thin Profit Margin Products** – Rivalry is intense when profit margins are already thin since only way out to increase profits is by increasing sales.

**(g) Lack of Product Differentiation** – If there is no real avenue for product differentiation, like in case of soft drinks, rivalry increases.

## **2. Threat of New Entrants:-**

**(a) Existence of Barriers to Entry** – Any kind of barriers like cartelisation by existing manufacturers, govt regulations (licences), natural barriers, etc.

**(b) Capital Requirement** – Capital intensive industries have relatively lesser threat of new entrants since very few people can afford to invest that kind of capital.

**(c) Economies of Scale** – There are some products which afford huge economy of scale. While the existing players would have slowly grown to build adequate market share/demand, new entrant would have to start with similar capacity without any demand/market to be able to produce at competitive cost. Maruti could slowly build a network of its service stations and spare parts vendors across India. Any new entrant cannot afford to build that kind of network unless they have that kind of density of vehicles on roads and therefore are finding it difficult to compete.

**(d) Brand Equity** – If there is a well entrenched product in the market, it hard for any new product to find a market for itself and therefore discourages new entrants.

**(e) Access to Distribution** – Distribution network is the trump card in the hands of a company. HLL, with its reach to the remotest corner of the country, enjoys that advantage and poses a barrier to the new comers. Many companies, including HLL are known to buy out all the prime shelf and advertising hoarding space ahead of launch of a competing product to black out them in the market.

**(f) Absolute Cost Advantages** – If a firm is enjoying a cost advantage due to any reason, may be captive mines, or pit head location or cheap captive power generation in a power intensive product like metals, it poses hurdle for new entrants.

## **3. Threat of Substitute Products:-**

**(a) Buyer Propensity to Substitute**

**(b) Relative price Vs performance of substitutes**

**(c) Buyer switching costs**

**(d) Perceived level of product differentiation**

#### **4. Bargaining Power of Suppliers:-**

**(a) Supplier Switching Costs Relative to Firm Switching Costs**

**(b) Degree of Differentiation of Inputs** – If a supplier has a well differentiated product, he can command a premium on price. Customer has little choice but to be a victim of such a suppliers fancy.

**(c) Absence of substitute inputs** – If a product does not have substitutes and there are not multiple suppliers with over capacity of that product in sourcing area, such suppliers will command premium on their product.

**(d) Cartelisation by Suppliers** – OPEC is an example which keeps adjusting production to keep crude prices artificially high.

**(e) Supplier concentration to firm concentration ratio**

**(f) Threat of forward integration by suppliers relative to the threat of backward integration by firms**

**(g) Cost of inputs relative to selling price of the product**

**(h) Insignificance of volume to supplier**

#### **5. Bargaining Power of Costumers:-**

**(a) Buyer Concentration to Firm Concentration Ratio** – In simple terms, this is demand supply gap. When there is oversupply of product, and many competitors for a small group of buyers, buyer has option to switch to other supplier and there is tendency among suppliers to attract the customer through price discounts, gifts etc to garner larger share of the market.

**(b) Bargaining Leverage** – Many customers have leverage over suppliers due to various reasons. There could be host of reasons, like political clout, muscle power, status, location advantage, etc. Sugar mills have this advantage while buying sugarcane from farmers. Farmers are unable to transport sugarcane to other factories because only one mill is permitted in specified area.

**(c) Volume Buyer** – Customers who are large buyers are often able to bargain better prices. Like almost 50% of P&G's worldwide sales comes from Wal-Mart stores. Therefore Wal-Mart has huge bargaining power with P&G.

**(d) Buyers' Switching Costs relative to Firm Switching Costs** – Sometimes there is substantial cost involved in switching from one supplier to another supplier. Take the cost

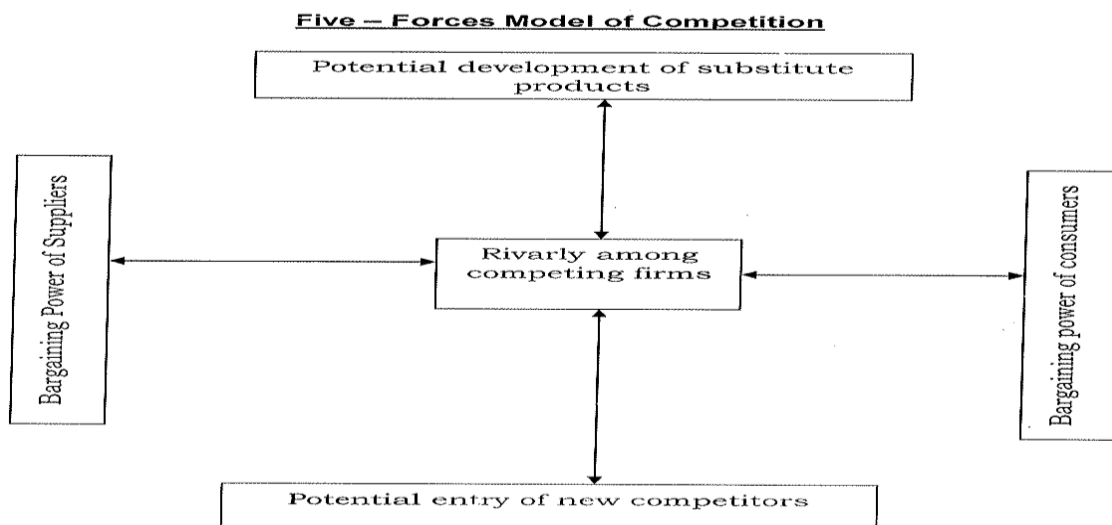
of telephones. The cost and efforts involved in informing all your contacts of change in your number is huge and is the biggest deterrent in switching your cell number. Thus, once a mobile phone company is able to retain a customer for about 6 months, he is adaptive customer thereafter. But once number portability is allowed across telecom service providers, the churn rate among mobile phone companies will increase substantially.

**(e) Buyer Information Availability – Information is Power.** Once the buyer is aware about inside information of the company, like production cost, customer base, capacity utilisation, material usage, etc, he will bargain from a position of strength. Similarly, if he comes to know that your production cost is very low, or you have inventory build up, or your sales are down, he will bargain hard for higher discounts.

**(f) Ability to Integrate Backwards –** If the customer has capacity and capability to integrate backward into your business, he will bargain harder with the threat that you will not only lose your business from him but precipitate another competitor as well.

**(g) Availability of Competitive/Substitute Products –** Anyone who has easy and at par cost or cheaper access to competitive/substitute product is a tough customer. Take instance of soft drinks. For coke and Pepsi, besides each other, a host of substitutes are available starting with water to beer, lassi, Nimbu Pani, Jaljeera, etc. That is why their advertising spend is among the highest in all sectors.

**(h) Undifferentiated Product –** If a product is undifferentiated, a customer will have no difficulty in switching over to another supplier.



**Q 16. Dr. G, the management consultant said that all strategies are evaluated only on the basis of the following two parameters viz.**

**A. Sustainable competitive advantage**

**B. Risk v/s return**

**As a strategic planner, please explain above evaluation to the group of manger of your company? (2008)**

**Ans.**

**(A) Sustainable Competitive Advantage:-**

Sustainable growth is the term used to describe a view on growth which advocates that growth be limited to a relatively slow rate so that growth does not jeopardize the carrying capacity of the immediate physical environment. Organizations must recognize changes in the environment that will limit the organization's growth. Specifically, population, resources, pollution and technology are important environment parameters. For e.g. the slower population growth in a country will lead to fewer people to consume products and a smaller workforce and limited growth opportunities for some organizations in such countries. Another environmental constraint on growth is resources availability. Technology is another factor in the environment that may limit the growth of some firms. The control of pollution is another constraint limiting growth prospects of some firms.

Sustainable competitive Advantage

A business strategy is powerful if it is capable of producing sustainable competitive advantage. Normally, a firm can sustain a competitive advantage for only a certain period due to rival firms imitating and undermining that advantage. A firm must strive to achieve sustained competitive advantage by

- (a) Continually adapting the changes in external trends and events and internal capabilities, competencies and resources; and
- (b) Effectively formulating, implementing and evaluating strategies that capitalize on those factors.

The organization has to develop its resources so that they reflect the uniqueness of the organization and they continue to remain within the organization. For a business unit's competitive advantage to be sustainable, its resources must be valuable, scarce and difficult to imitate or substitute. The advantage that results from generating core competencies can be sustained due to the lack of substitution and imitation capacities by

the organization's competitors. The generic building blocks of competitive advantage help the firm in charging premium price thereby it can improve sustainable competitive advantage. Normally, unbalance between various dimensions of competitive advantage such as efficiency, quality, innovation and customer responsiveness are to be considered to be the basic causes for failure of a business firm. The new organizational structure, appropriate leadership style, proper control systems in response to the changed environment will help in maintaining competitive advantage.

### **(B) Risk Vs Return Analysis:-**

The word costing relates to the ascertainment of cost of capital from different sources like equity capital preference capital debentures, long-term loans etc. The most crucial decision of any company is involved in the formulation of its appropriate capital structure. The best design or structure of the capital of a company obviously help the management to achieve its ultimate objectives of minimizing overall net capital maximizing profitability and also maximizing the value of the firm. These will in turn help to maximize the earning per share. It is thus apparent that the design of the capital structures of a firm has some bearing of the profitability of that company. Capital structure decisions assume vital role in corporate financial management due to their influence both on return and risk of the shareholders. The close nexus between optimum judicious use of debt and the market value of the firm a well recognized in literature. Whereas an excessive use of debt may endanger the very survival of the corporate firm, a conservative policy may deprive the corporate firm of its advantages in terms of the rate of return to its equity owners.

### **Risk-Return Trade off:**

The prime objective of financial management is maximizing the value of the firm, which is possible only when well balanced financial decisions are taken. The management should try to maximize the average profit while minimizing the risk. The projects promising a high average profit are generally accompanied by high risk. Managers should accept such projects only if they will induce an increase in stock price. It is known that "Bigger the Return" other things being equal, "Bigger the market value" and vice versa. Hence, it should be kept in view that risk and return go together. The risk-return trade-off is illustrated in figure below.

**Q 17. Strategic implementation in challenging task in business organization dealing with problem of organizational structure, system, styles, culture, power & authority. Explain with an appropriate example? (2011)**

**Ans.** Strategy is a blueprint indicating the courses of action to achieve the desired objectives. The objectives are achieved by proper activation of the strategy. The activation or implementation step in the strategic management encompasses the operational details to translate the strategy into effective practice. A good strategy by itself does not ensure success. The success depends, to a very large extent, on how it is implemented. Many strategies fail to produce the expected results because of the failure in properly implementing the strategy. Strategy implementation, often described as the action phase of the strategic management process, covers strategy activation and evaluation and control. Some writers break the strategy implementation phase into three components,

1. Operationalising the strategy [communicating strategy, setting annual objective developing divisional strategies and policies, and resource allocation]
2. Institutionalizing the strategy [organizational structuring and leaders implementation]
3. Evaluation and control of the strategy.

## **STEPS IN STRATEGY IMPLEMENTATION**

### **Leadership Implementation:**

Leadership implementation refers to ensuring the right people in position responsible for implementation of the strategy. It encompasses the Chief Executive Officer [CEO] and the key managers. The ability, integrity and commitment of the CEO and other top executives are very critical to the successful implementation of the strategy. "Because the very definition enterprise strategy implies new corporate directions, implementing this strategy required a leader who can drive an organization, energize its operations, and inspire its people. This kind of leader must personify the organization's purpose- through sheer personal magnetism, vitality and force. There is no substitute for the pronounced personal strategy and strong interpersonal skills that most effective leaders possess. In many firms there was a new CEO behind major strategic changes and substantial increase improvement in the business. This is true of turnaround cases and substantial growth/improvement of profitable firms. There are many well known such leaders from



Lee Iacocca (Chrysler Corporation) down to CEO's of national and local firms. Besides the CEO, other top executives have a critical role in the strategy implementation. It is, therefore essential to ensure that such key positions are held by the right people.

### **Communicating the Strategy:**

Strategy implementation involves a number of people at different level; many of them might not have taken part in the strategy formulation. This highlights the importance of communication the strategy. Even those who are not directly involved in strategy implementation need to be informed about the strategy because everybody in the organization should know what are the future plans for the organization, why changes are affecting the organization, why these changes or strategy. What are the objectives and implications etc? It is essential to instill a feeling of belongingness to the organization. Absence of such communication would create a feeling of alienation in the employees causing morale and motivation to dampen and would also cause resistance to the strategy. Through the communication process, the CDO interacts with the various internal and external stakeholders of the corporation - employees, shareholders, suppliers, customers, legislators, advocates and the public at large. Proper communication of the strategy is a prerequisite for successful implementation of the strategy. "A clear understanding of the strategy gives purpose to the activities of each organization member. It allows the individual to link whatever task is at hand to the overall organizational direction. It does not, however mean that all strategies or all the details of the strategy should be or can be communicated. For example, it will be suicidal to allow the competitors to know of certain strategies of the company. A strategy that will provide or exploit an unpublicized advantage may be kept undisclosed. If the strategy will divulge proprietary information, it should be shared only a need-to-know basis.

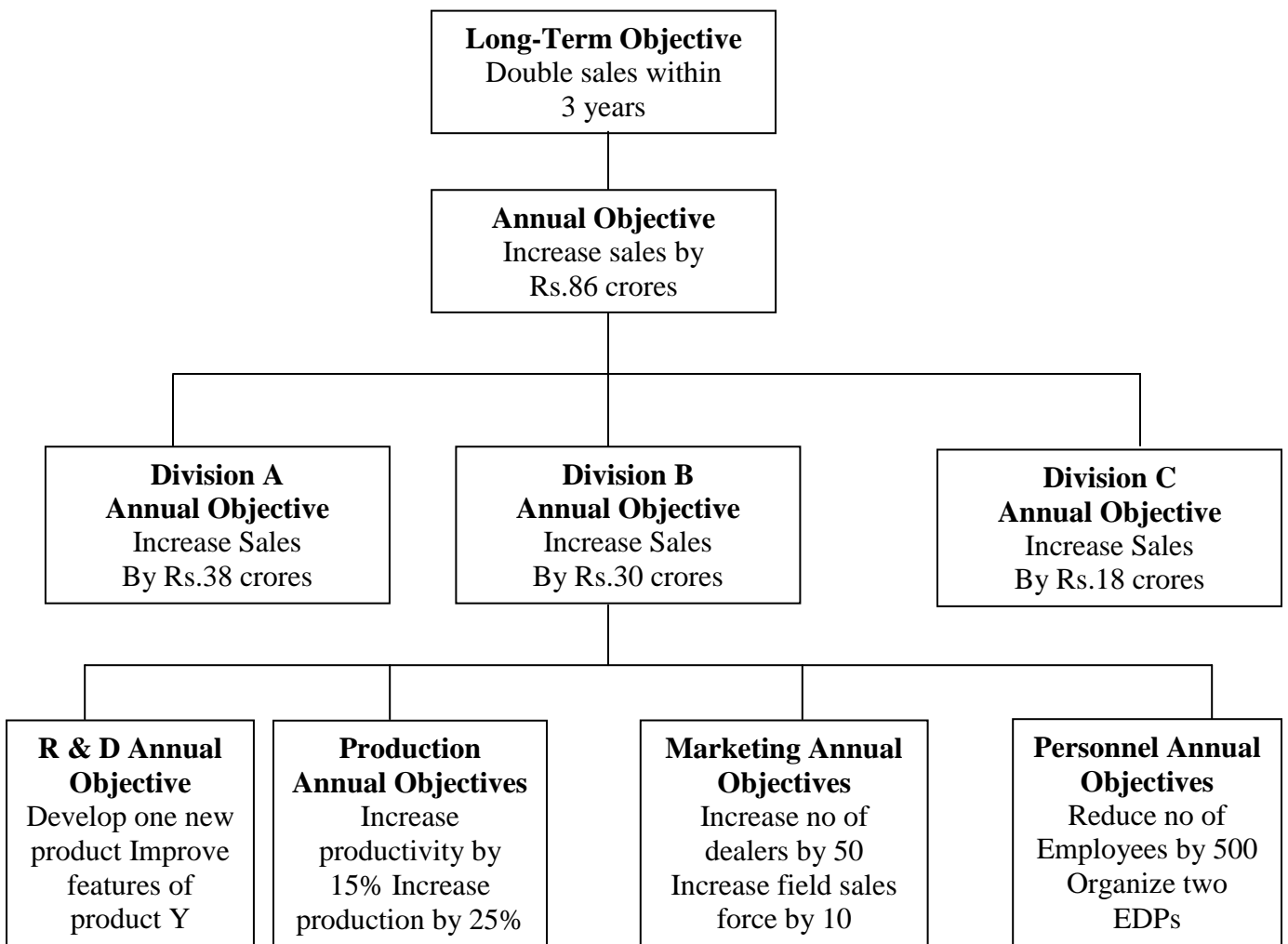
### **Annual Objectives:**

Annual operating objectives designed to contribute to the long-term objectives is a critical step in strategy implementation. Long-term objectives indicate the planned long-term positioning of the organization. Short-term objectives like annual objective lay down the specific goals and targets to be achieved within the specific time frame so that

the long-term objectives would be achieved. While long-term objectives are very broadly stated, annual objectives very specifically lay down the annual goals for the business, functional areas or subunits.

**Functional Strategy:**

Functional strategies by clearly specifying the various measures to be taken in different functional areas in different time horizons help operationalise the grand strategy. In other words, functional strategies provide the short-term operational details for accomplishing the long-term objectives systematically. “Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company to pursue the business strategy in daily activities



**Fig. Annual & Functional Objective**

The annual objective is to increase sales by Rs.86 crore. Strategies for this include, for example, increasing the sale of division A by Rs.38 crore, division B by Rs.30 crore, division C by Rs.18 crore, developing a new product, intensifying promotion by increasing the size of the field sales force, increasing the number of dealers etc. The functional strategy for marketing must cover all the factors of the marketing mix. Mutually consistent strategies for each of the factors must be developed to help achieve the annual marketing objective. R & D strategy may involve improving product or packaging, developing new product etc. Similarly every key functional area must develop strategies to achieve the annual objectives.

### **Resource Allocation:**

Making sufficient resources available in time is an essential requirement for effective implementation of the strategy. Top management's commitment to the strategy will be reflected in the resource allocation. Objectivity is a prerequisite of efficient resources to SBUs, divisions, functions or executives. It is well known that one of the major reasons for the failure of implementation of many public sector projects in India is associated with resource allocation.

### **Development of Policies:**

Effective implementation of strategy requires formulation of policies. "A policy is a broad, general guide to action which constrains or directs goal attainment. Thus, policies serve to channel and guide the implementation of strategies."

### **Organizational Implementation:**

A strategy cannot be effectively implemented unless there is a suitable organization. It is therefore, essential to ensure the right organizational structure for the strategy. It is relevant to recall here the well known conclusion of Alfred Chandler that structure follows strategy. The role of structure in the effective implementation of the strategy is clear from the following observation. The experience of Mc Kinsey supports the view that "neither strategy nor structure can be determined independently of the other.... Strategy can rarely succeed without an appropriate structure. In almost every kind of large scale enterprise, example can be found where well conceived strategic plans were

thwarted by an organization structure that delayed the execution of the plans or gave priority to the wrong set of considerations. Good structure is inseparably linked to strategy.” Many strategies call for changes in the organizational structure.

**Reward System:**

Effective implementation of the strategy also depends on the motivation of executives and other associated with the implementation. It is, therefore, necessary to have systems to reward superior performance so as to motivate people to perform very well. Reward system may consist of monetary rewards like pay rises, bonuses, and promotions. Lump sum payments etc or non monetary rewards like awards, special acknowledgments etc or both.

## **Short Notes**

**1. What is Benchmarking?** Benchmarking is an analytical tool used to determine whether a firm's value chain activities are competitive compared to rivals & thus conducive to winning in the marketplace. Benchmarking entails measuring costs of value chain activities across an industry to determine "best practices" among competing firms for the purpose of duplicating or improving upon those best practices. Benchmarking enables a firm to take action to improve its competitiveness by identifying (improving upon) value chain activities where rival firms have comparative advantages in cost, service, reputation, or operations. The hardest part of benchmarking can be gaining access to other firms' value chain activities with associated costs. Typical sources of benchmarking information however, include published reports, trade publication suppliers, distributors, customers, partners creditors shareholders, Lobbyists & willing rival firms, because of its popularity many consulting firms are using benchmarking e.g. Accentor.

## **2. Market Penetration**

It seeks to increase market share for present products or service in present market through greater market efforts. Market penetrations includes increasing the number of salespersons, increasing advertising expenditures, offering extensive sales promotion items on increasing publicity efforts.

Japanies electronics giants Sony Corporation is spending over \$140 million in a new advertising & promotion drive to market it high definition television sets in the U.S.A. Five guidelines for when market penetration may be effective strategy.

1. When current market are not started with a particular product or service.
2. When the usage rate of present customers could be increased significantly.
3. When the market share of major competitors have been declining while total industry sales have been increasing.
4. When the correlation between dollar sales & dollar marketing expenditure historically has been high.
5. When increased economics of scale provide major competitive advantages.

## **3. Market Development**

It involves introducing present products or services into new geographic area e.g. Adidas in May 2005, had 1,500 stores in China & Stated that it would open another 40 stores every months in china for the next 40 months. Already the number 2 sportswear company in the world behind Nike, Adidas has been nominated as the official outfitter Of the National Olympic committee in china in 2008.

6 guideline for when market development may be an especially effective strategy are :-

1. When new channels of distribution are available that are reliable , inexpensive and of good quality.
2. When an organization is very successful at what it does.
3. When new untapped or unsaturated market s exists.
4. When an organization has the needed capital & HRS to manage expanded operations.
5. When an organization has excess production capacity.
6. When an organizations basic industry is becoming rapidly global in scope.

**4. Product Development:-** is a strategy that seeks increased sales by improving or modifying present products or services. Product development usually entails large research & development expenditures.

Fast – Food chains from Arbys' to McDonalds are pursuing product development testing gourmet like sandwiches, because customers increasingly are willing to pay more for fast food crafted with quality ingredients . People more and more want food that not only tests good but that they can feel good about eating. McDonald 's now has design your own deli sandwiches & Arby's sells chi-chi sandwiches, which is a chicken salad blended with pecans , apples & grapes subway is testing a healthy kids pak & Windy's is testing fruit cups & milk as options in its kid meals.

Coca – Cola Co., based in Atlanta & Pepsi co based in purchase New York are introducing Coca-Cola zero & Pepsi co one, respectively which underscore the growing popularity of diet soft drinks at the expenses of sugar drinks. Sales of sugary drinks such as Coca-Cola classic & Pepsi, fell 3% & 2.5%. Last year diet drinks now have 29.1% market shares that is growing many teenagers young adults have ditched regular colas in favour of bottled water & diet drinks.

5 guideline for when product development may be an especially effective strategy to pursue are :-

1. When an organization has successful products that are in the maturity stage of the product life cycle the idea here is to attract satisfied customers to try new (improved) products as a result of their positive experience with the organizations present products or services.
2. When organizations completes in an industry that is characterized by rapid technological developments.
3. When major competitors offer better quality products at comparable prices.
4. When an organization competes in a high growth industry.

When an organization has especially strong research & development capabilities.

### **5) Core Competencies:-**

Prahalad and Hemal through a series of articles in the Harvard business review followed by a bestselling book, competing for the future, developed the concept of Core-Competencies .

Core competence can be seen as any combination of specific, inherent integrated and applied knowledge , skills and attitudes.

Core competencies are not fixed . Competencies are developed internally by the firm in its day by day activity and by the use of acquired resource. Therefore, competencies are accumulated following firm specific knowledge patterns.

While the core competencies vary by industry and by company, following is a related list of skills, processes or systems that might be considered as core competencies.

- (a) Product development – Marketing
- (b) Supply chain- Speed to market
- (c) Sales force – Customer service
- (d) Technology – Strategic Alliances
- (e) Manufacturing practice – Engineering
- (f) Service levels – Design
- (g) Efficient Systems – Product innovation

Core competency analysis creates a realistic view of the skill sets, processes and systems the company is uniquely good at performing e.g. reliance industries has grown to be the largest private enterprise in India in the last 25 years . The secret of its phenomenal success are its competencies. Its competencies are its project management skills, perhaps the best in the world, its competence to mobilize large quantities of low cost finance, manage the regularity environment and speed. These competencies allowed Reliance to set – up world scale plants at the lowest capital costs of any company in India and extend its activities to span exploration and

production (E & P) of oil & gas, refining & marketing, petrochemical (Polyester, polymers and intermediates) textiles financial services and insurance, power telecom and infocom initiative.

In each industry there are different sets of core competencies that are important to the success of the business. In most instances the list of important competencies is relatively short. However this short list, when well selected and developed provides the opportunity to leverage the strategy of the company. Porter has identified some competencies that determine strategy. These are given in table below

Table (Identification of Core Competencies)

	Area	Competent Requirements
a.	<b>Products</b>	Standing of products from the users point of view, in each market segment breadth & depth of the product time.
b.	<b>Dealer / Distributor</b>	Channel coverage & quality strength of channel relationships ability to service the channels
c.	<b>Marketing &amp; Selling</b>	Skills in each aspects of the marketing more skills in market research & new product development training & skills of the sales force.
d.	<b>Operations</b>	Manufacturing cost position economic of scales, learning curve, age of equipment etc. Technological sophistication of facilities and equipment, flexibility of facilities and equipment transportation cost, labor cost unionizations and cost of raw material.
e.	<b>Research &amp; Engineering</b>	Patents, copyright in house capability in R&D etc.
f.	<b>Overall cost</b>	Overall relative costs shared costs etc.

**Q.21.** Write short notes on :

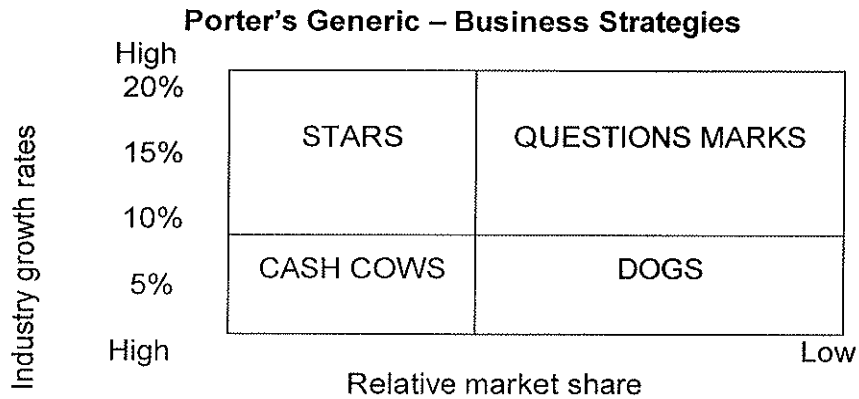
- (a) Strategic Audit
- (b) Global and Multi Country Operations
- (c) Stars V/s. Cash Cows

**Ans.** The Boston Consulting Group (BCG) matrix, provides a graphic representation for an organization to examine the different business in its portfolio on the basis of their relative market shares and industry growth rates. Business could be classified on the BCG matrix as either low or high according to their industry growth rate and relative market share. The vertical axis denotes the rate of growth in sales in percentage for a particular industry. The horizontal axis represents the relative market share, which is the ratio of a company's sales to the sales of the industry's largest competitor or market leader. The low and high market shares are separated by a vertical line set at 1.0. This means that a company would have a relative market share of less than 1.0 if it does not have the largest share. A relative market share of more than 1.0 would occur for companies that are the largest sellers in their various industries. (In practice, the ratio of 1.0 is difficult to achieve and it is more realistic to place the vertical line at 0.75 or at the market share of the 'average firm' in the industry). Still, in order to get the maximum benefit out of the experience curve, the BCG matrix indicates that it is necessary to be the market leader. The result of combining the industry growth rate and relative market share, each along a high and low dimension, is a four – cell matrix. Each cell of this matrix has been given an interesting and appropriate name by the Boston Consulting Group.

The four cells of the BCG matrix have been termed as stars, cash cows, question marks (or problem children), and dogs. Each of these cells represents a particular type of business. These

different types of businesses, with some contemporary examples from the Indian corporate world, are described below:

**A typical BCG Matrix**



**Stars** Stars are high –growth – high – market share business which may or may not be self – sufficient in terms of cash flow. This cell corresponds closely to the growth phase of the product life cycle (PLC). A company generally pursues an expansion strategy to establish a strong competitive position with regard to a 'star' business. In the current Indian context, there are many businesses which could be considered as 'star'. For instance, petrochemicals, electronics and telecommunications, fast foods, ceramic tiles, among others are some of the industries which have a very high growth rate. To a great extent, government priorities still seek to determine the 'star' status of any industry in India.

**Cash cows** As the term indicates, cash cows are businesses which generate large amounts of cash but their rate of growth is slow. In terms of PLC, these are generally mature businesses which are reaping the benefits of the experience curve. The cash generation exceeds the reinvestment that could profitably be made into 'cash cows'. These businesses can adopt mainly stability strategies. Where long term prospects are exceptionally bright, limited expansion could be adopted. As 'cash cow' industries lose their attractiveness and tend towards a decline, a phased retrenchment strategy may be feasible. The cash generated by 'cash cows' is reinvested in 'stars' and 'question marks'. Companies which are well entrenched in an established market enjoy the advantages of 'cash cows'. Scooters for Bajaj Auto, toothpaste for Colgate, decorative paints for Asian Paints, molded luggage for Blowplast, and India Today for Living Media are some of the 'cash cows' in the contemporary Indian markets.

**Question marks** Business with high industry growth but low market share for a company are 'question marks' or 'problem children'. They require large amounts of cash to maintain or gain market share. 'Question marks' are usually new products or services which have a good commercial potential. The logic of the experience curve dictates that the company obtaining an early lead can expect cost advantages and market leadership and can successfully create entry barriers. No single set of strategies can be recommended here. If the company feels that it can obtain a dominant market share, it may select expansion strategies, otherwise retrenchment may be a more realistic alternative. 'Question marks', therefore, may become 'stars' if enough investment is made, or they may become 'dogs' if ignored. There are several industries in India where many companies find themselves holding businesses which are 'question marks'. Holiday resorts, light commercial vehicles, home improvement products are a few of the examples. It is to be noted, however, that the list of 'question marks' keeps changing frequently with changes in government policy and other environmental factors. For instance, dotcom companies became a rage for a short while in early – 2000 but soon turned into 'question marks' for several business.



**Dogs** Those business which are related to slow –growth industries and where a company has a low relative market share are termed as 'dogs'. They neither generate nor require large amounts of cash. In terms of PLC, the 'dogs' are usually products in late maturity or a declining stage. The experience curve for the company shows that it faces cost disadvantages owing to a low market share. The only possibility for the company could be to gain market share at the expense of rival firms, a possibility that is remote owing to the high costs involved. So retrenchment strategies are normally suggested. But government policies may prevent retrenchment and the 'dogs' may be artificially sustained, which explains the presence of many products in the Indian markets which would fade away if left on their own. Cotton textiles, jute, shipping, leasing, photocopier are some of the products and services that have become 'dogs' for quite a few companies.

(d) Vertical and Horizontal Integration.

**Ans.**

Vertical integration: When an organization starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity undertaken with the purpose of either supplying inputs (such as, raw materials) or serving as a customer for outputs (such as, marketing of firm's product) is vertical integration.

Vertical integration could be of two types: backward and forward integration. Backward integration means retreating to the source of raw materials while forward integration moves the organization nearer to the ultimate customer.

Generally when firms vertically integrate they do so in a complete manner, that is, they move backward or forward decisively resulting in a full integration. But when a firm does not commit itself fully it is possible to have partial vertical integration strategies too. Two such partial vertical integration strategies are 'taper' integration and 'quasi' integration. Taper integration strategies require firms to make a part of their own requirements and to buy the rest from outsiders. Through quasi integration strategies firms purchase most of their requirements from other firms in which they have an ownership stake. Ancillary industrial units and outsourcing through subcontracting are adapted forms of quasi integration. For outsourcing to take place firms create captive supply source by providing a part of the manufacturing requirements, such as, design and blueprints, and raw material to the subcontractors, who then make the parts and supply to the firm.

Horizontal integration: when a organization takes up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration. When a luggage company takes rival luggage company, it is horizontal integration (or a merger). Horizontal integration strategy may be frequently adopted with a view to expand geographically by buying a competitor's business, to increase the market share or to benefit from economies of scale.

All integration strategies require trade-offs to take place. There are relative merits and demerits of integration. Like concentration strategies, integration strategies too carry a risk as the firm commits itself to adjacent businesses all geared to serve the same set of customers groups and customer needs. If the firm is integrated and the principal products fails or becomes obsolete then it faces a grave risk. Further, while integration strategies provide a firm better control over its value chain by creating access to and control of supply and demand, the flip side is that it commits the firm to a set of customer needs and customer groups more intensely. Because of these reasons, several firms diversify to reduce their risk. Diversification strategies have been discussed next.