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Module- I

Hand Out by Prof Bholanath Dutta

***Meaning and Nature of Strategic Management** - its importance and relevance – Characteristics of Strategic Management – The Strategic Management Process – Relationship between a Company's Strategy and its Business Model.*

Introduction

Example:

i) Deccan Airlines Started the Apex fare- low cost carries.
ii) Merger of Kingfisher and Deccan airlines.
iii) Shifting of Bangalore Airport
iv) CEO-Star TV, Peter Mukherjee spent 20 crores on promotion of KBC first time on electronic and print media.
v) Take over of Arcelor by Mittal. Etc.

The concept of strategy is central to understanding the process of strategic management. The term 'strategy' is derived from the Greek word "STRATEGOS", which means Generalship - the actual direction of military force, as distinct from governing its deployment. Therefore, the word 'strategy' means "THE ART OF GENERAL". Before making a decision managers have to look into the course of deciding since

Strategy involves situations like: -

a) How to face the competition.

b) Whether to undertake expansions/diversification

c) To be focused/ broad based

d) How to chart a turn around

e) Ensuring stability/should we go in for disinvestments etc

For a company strategy is one of the most significant concepts to emerge in the field of management, and also one of the most vital for survival and success.

Some definitions of strategy are as follows: -

According to Alfred chandler the strategy is the determination of basic long-term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources for carrying out these goals.

William Glueck defines strategy as "a unified, comprehension and integrated plan designed to assure that the basic objectives of the enterprises are achieved".

Michael Porter's opinion is that the "core of general management is strategy".

Managers must make companies flexible, respond rapidly, benchmark the best practices, outsource aggressively, develop core competencies; infact should know how to play new roles everyday. Hyper competition is a common phenomenon that rivals copy very fast.

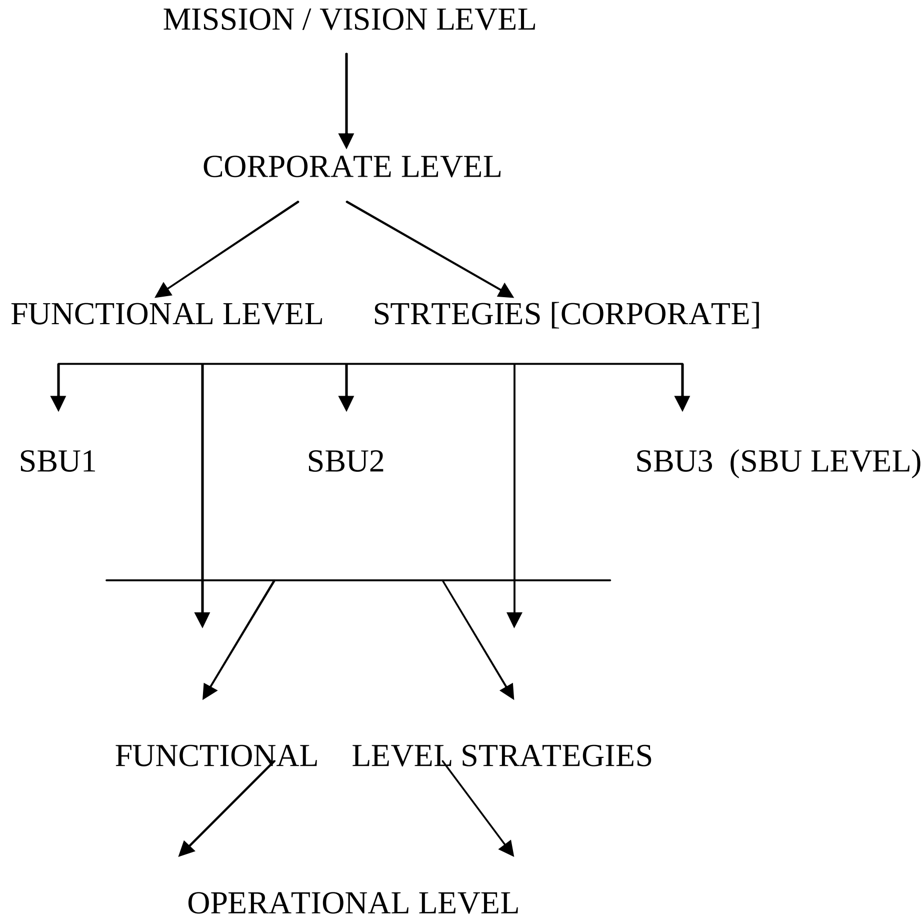
Companies can outperform rivals only if it can establish a difference it can preserve and deliver greater value at a reasonable cost. Strategy rests on unique activities –" The essence of strategy is in the activities – choosing to perform things differently and to perform different activities than rivals".

Strategy is long term. If company focus is only on operational effectiveness. It can become good and not better. Overemphasis on growth leads to the dilutions of strategy. Growth is achieved by deepening strategy. Strategy is basically: -

- Strategy is the future plan of action, which relates to the companies activities and it depends on the mission/vision of the company i.e. when it would like to reach from its current position.
- It is concerned with the resource available today and those that will be required for the future plan of action.
- It is about the trade off between its different activities and creating a fit among these activities.

A company will need strategy at various levels, as there is a different need at each level. A company may have different business with a central corporate office. Thus will be multiple strategies at different levels.

Levels of Strategy



- Operational level strategies are derived from functional strategies.
- Functional strategies operate under the SBU – level.
- SBU- level strategies are put into action under the corporate – level strategy.
- Corporate level is derived from the societal-level strategy of a corporation.

1. **Corporate level strategy: -** It is the broad level strategy and all its plan of actions is at corporate level to achieve what the company as a whole. It covers the various strategies and functions performed by different SBU's. The Strategies needs should be in line with the company objectives.

2. **SBU level (or business) strategy: -** It will be line to achieve the objectives for SBU's, which are derived and in line with the corporate/company objectives. It would cover allocation of resources among functional areas along with functional strategies, which again are in line to functional strategies of the corporate level. Their needs to be coordination between the corporate and SBU level both in objectives and functional strategies for optimization.

Functional strategy: - The functional strategy at the SBU level deals with a relatively smaller area, providing objectives for a specific function in that SBU environment, like marketing, finance, production, operation, etc.

These are the three levels at which strategic plans are made for most companies.

But larger companies may need to have strategies at some other levels too. Large companies or companies with multiple businesses in different countries often need a larger level for the group as whole. Sometimes even relatively smaller companies may often need a set of strategies at a level higher than the corporate level. This is known as societal strategies.

4. **Societal strategies:** - A societal strategy is a generalized view or how the company perceives itself in its role towards the society or even a country or countries, in terms of a particular vision / mission statement, or even a need or a set of needs that it strives to fulfill corporate level strategies are then derived from the societal strategy.

5. **Operation level:** - In the dynamic environment and due to the complexities of business, strategies are needed to be set at lower levels i.e. at one step down the functional level, known as operation level strategies. There are more specific & has a defined scope. E.g. Marketing Strategy could be subdivided into sales Strategies for different segments & markets, pricing, distribution, product development and communications and advertising strategies etc. Some of them may be common & some unique to the target markets. It should contribute to the functional objectives of marketing function. These are interlinked with other strategies at functional level like those of finance, production etc

Comparison between Strategic Planning & Operational Planning

Strategic (long-range) Plans	**Intermediate (tactical) Plans**	**Operational (Short- range)**
Long-range plan	Intermediate plan	Short range plan
Time-frame – 3 or more years	Time-frame- 2-3 years.	Time-frame: one year
Top management responsibility	Performed by managers at middle level	Done usually at lower levels
Concerned with broad objectives	Concerned with integrating of the organisation departments in the organisation	Covers day-to-day work of various operations; implements internal goals
Focus on planning and forecasting	Focus on coordination	Focus on control primarily

The differences between strategies and tactics are outlined below:

Strategies	Tactics
Developed by management; these decisions are never delegated below a certain level in management hierarchy.	Employed and related to lower levels of management.
Generally the focus is on long-term	The focus is on short-term
The uncertainty level is quite high; lots of information to be obtained from diverse sources	Decisions are more certain and are taken within the framework of strategies.
Affect various parts of an organisation in a significant way.	The reach is limited to only specific segments of an organisation.

Strategy vs. Policy

Business Policy: A business policy is an implied overall guide setting up boundaries that supply the general limits and direction, in which managerial action will take place- Terry.

Business policies are guides to action or channels to thinking – Steiner, Miner and Gray.

Strategy	Policy
Deals with strategic decisions that decide the long-term health f an enterprise. It is a comprehensive plan of action designed to meet certain specific goals.	It offers guidelines for managers to take appropriate decision.
It is means of putting a policy into effect within certain time limits.	It is a general course of action with no defined time limits.
Deals with those decisions which have not been encountered before in quite the same form, for which no predetermined and explicit set or ordered responses exist in the organisation and which are important in terms of the resources committed or the precedents set.	It is a guide to action in areas of repetitive activity.
Deals with crucial decisions whose implementation requires constant attention of top management.	Once policy decisions are formulated, these can be delegated and implemented by others independently.

Various Roles of Strategists

The senior management plays an important role in Strategic Management.

Role of Board of Directors: The Board of Directors is the supreme Authority in a company. They are the owners/ shareholders/ lenders. They are the ones who direct and responsible for the governance of the company. The Company act and other laws blind them and their actions & they sometimes do get involved in operational issues. Professionals on the B.O.D help to get new ideas, perspectives & provide guidance. They are the link between the company and the environment.

Role of C.E.O: The chief Executive Officer is the most important Strategist and responsible for all aspects from formulations/Implementation to review of Strategic Management. He is the leader, motivator & Builder who forms a link between company and the board of directors and responsible for managing the external environment and its relationship.

Role of Entrepreneur: They are independent in thought and action and they set / start up a new business. A Company can promote the entrepreneurial spirit and this can be internal attitude of an organization. They provide a sense of direction and are active in implementation.

Role of Senior Management: They would either look after strategic management as responsible for certain areas or as part of teams and are answerable to the B.O.Directors & the C.E.O.

Role of SBU – Level Executives: They Co-ordinate with other SBU's & with Senior Management. They are more focused on their product / burners line. They are more on the implementation role.

Role of Corporate Planning Staff: It provides administrative support, tools and techniques and is a Co-ordinate function.

Role of Consultant: Often Consultants may be hired for a specialized new business or Expertise even to get an unbiased opinion on the business & the Strategy.

Role of Middle Level Managers: They form an important link in strategizing & Implementation. They are not actively involved in formulation of Strategies and they are developed to be the future top management.

Strategic management is a dynamic process of aligning strategies, performance and business results; it is all about people, leadership, technology and processes. Effective combination of these elements will help with strategic direction and successful service delivery. It is a continuous activity of setting and maintaining the strategic direction of the organization and its business, and making decisions on a day-to-day basis to deal with changing circumstances and the challenges of the business environment

The term strategic management has been traditionally used. New title such as business policy, corporate strategy and policy, corporate policies is essentially and extensively used which means more or less the same concept.

Evolution of Strategic Management

Period	**1950s**	**1960s**	**1970s**	**Late 1970s to early 1980s**	**Late 1980s to early 1990s**	**Mid to late 1990s**
Dominant Theme	Budgetary planning and control	Corporate planning	Corporate strategy	Analysis of industry and competition	The quest of industry and competition	Strategic innovation
Main issues	Financial control through operating budgets	Planning growth	Portfolio planning	Choice of industries, markets, and segments and positioning with them	Sources of competitive advantage within the firm	Strategic and organizational advantage.
Principal concepts and techniques	Financial budgeting investment planning, project appraisal	Forecasting investment planning models	Synergy SBUs portfolio planning matrices Experiences Curves return to market share	Analysis of industry structure competitor analysis PIMS analysis.(The Profit Impact of Market Strategy ("**PIMS**") **analysis** was developed at General Electric in the 1960's and is now maintained by the Strategic Planning)	Resource analysis Analysis of core competences	Dynamic sources of competitive advantage control of standards knowledge and learning
Organizational implications	Financial management the key	Rise of corporate planning departments and five-year formal plans	Diversification Multidivisional structures Quest for global market share	Greater industry and market selectivity industry restructuring active asset management	Corporate restructuring and business process reengineering refocusing and outsourcing	The virtual organisation,. The knowledge based firm alliances and networks, the quest for critical mass.

Definition- Strategic Management

Management literature of the last decade or two is dominated by the prominence of two terms, ‘strategic management’ and ‘strategy’. The two, although not synonymous, are often considered as such. In its broadest sense, Strategic management is about taking ‘strategic decision’. It starts where strategic thinking ends. It applies strategic thinking to lead the organization to its vision. In a postmodern society, where failures and disasters are magnified globally, Strategic Management is a system with a focus on continuous change. The process is iterative and ongoing.

Characteristics of Strategic Management:

- Strategic management co-ordinates and integrates business activities.
- Strategic management strengthens the competitive position.
- Strategic management satisfies customers.
- It works toward achieving performance targets.
- It is adaptive

Need of Strategic Management:-

1. Due to change
2. To provide guide lines
3. Research and development
4. Probability for business performance
5. Systemized decision
6. Improves Communication
7. Allocation of resource
8. Improves Coordination
9. Helps the managers to have holistic approach

Importance of Strategic Management:-

1. To the shape the Future of business
2. Effective strategic idea
3. Mangers and employer are innovative and creative
4. Its decentralized the Management
5. Its helps to increase the productivity
6. To Makes discipline
7. To Make control
8. To makes forward s thinking

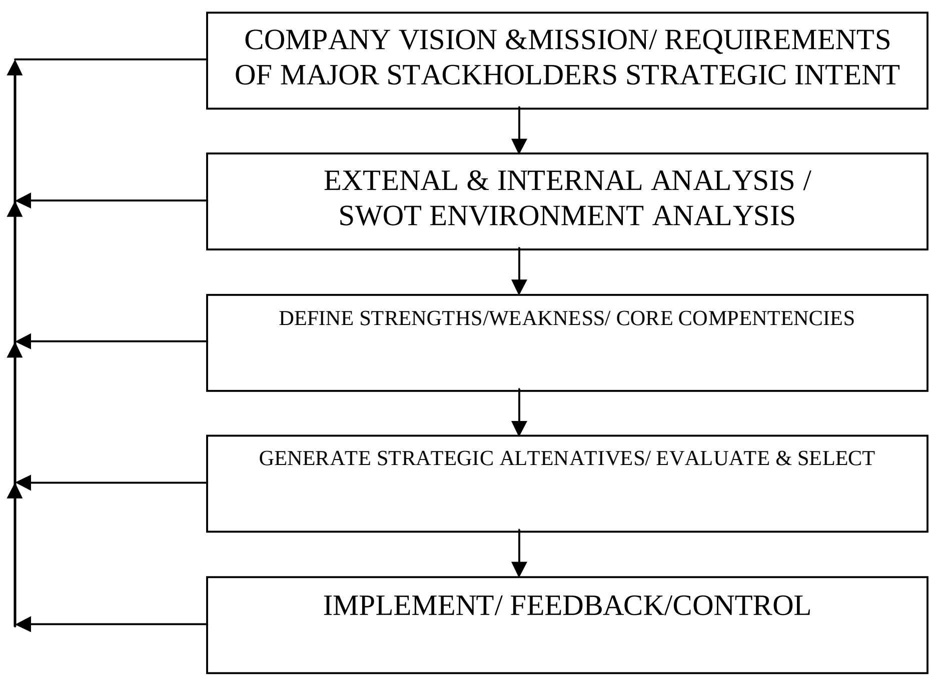
Importance and Role of Managers in Strategic Management:

- Strategic management integrates the knowledge and experience gained in various functional areas.
- It helps to understand and make sense of complex interaction in various areas of management.
- It helps in understanding how policies are formulated and in creating appreciation of complexities of environment that the senior management faces in policy formulation.
- Managers need to begin by gaining an understanding of the business environment and to in control.

Role of Indian managers in this age:

a) They should know to manage and understand information technology, which is changing the face of business.
b) As public and common investors own and more companies managers need to acquire skills to maximize shareholder value.
c) To have/take a strategic perspective, managers should foresee the future and track changes in customer expectation. Intuitive, logic reasoning is required for proper decision-making.
d) Successful companies depend on people. For people, management managers should create capability for imitating and manage things through leadership and should possess qualities like patience, commitment and perseverance.
e) Managers need to provide speed responses to environmental changes through informational systems and organizational process.
f) As corporate are becoming more integrated with the public life, corporate governance is becoming important which manager may have to practice.
g) Managers should learn to deal with confused and complex situations. They should know to deal with global managers, business protocols and market conditions.
h) In complex and certain situations, managers should have the courage in decision-making to make unconventional decisions.
i) Managers should possess high ethical standards in business and focus on social responsibility.

Strategic Management Process



From the above block diagram it states that Strategic Management is a process, which leads to the formulation of Strategy/ Set of Strategies & managing the Organizational System for the achievement of Vision, Mission Goals and Objectives.

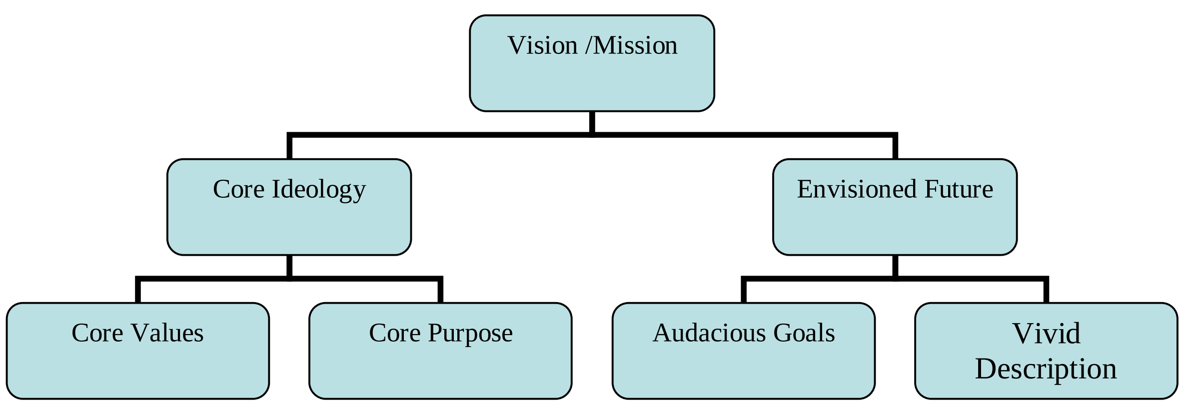
(i) Company Vision / Mission

While a business must continually adapt to its competitive environment, there are certain core ideals that remain relatively steady and provide guidance in the process of strategic decision-making. These unchanging ideals form the **business vision** and are expressed in the company **mission statement**.

Company Vision is What a Company Wishes to become or aspire to be.

The mission statement describes the company's business vision, including the unchanging values and purpose of the firm and forward-looking visionary goals that guide the pursuit of future opportunities.

Guided by the business vision, the firm's leaders can define measurable financial and strategic objectives. Financial objectives involve measures such as sales targets and earnings growth. Strategic objectives are related to the firm's business position, and may include measures such as market share and reputation.



Core Ideology: Is the unchanging part of organization. It is the character of an organization, this would not change for a longer time even it were disadvantage.

Core Values: The core values are a few values (no more than five or so) that are central to the firm. Core values reflect the deeply held values of the organization and are independent of the current industry environment

Core Purpose: The core purpose is the reason that the firm exists. This core purpose is expressed in a carefully formulated mission statement. Like the core values, the core purpose is relatively unchanging and for many firms endures for decades or even centuries. This purpose sets the firm apart from other firms in its industry and sets the direction in which the firm will proceed

Envisioned Future: Are the goals to be reached. It is classified into:

- Audacious Goals: These are the goals that the company would like to achieve. They are tough needs extraordinary commitment and effort.
- Vivid Description: These Goals are put into words that evoke a picture of what it would be like to achieve the Audacious Goals.

(ii) Environmental Scan

The environmental scan includes the following components:

1. Internal analysis of the firm
2. Analysis of the firm's industry (task environment)
3. External macro environment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis An industry analysis can be performed using a framework developed by Michael Porter known as Porter's five forces. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.

(iii) Strategy Formulation

Strengths: it’s always in relation to the environment. It’s an unborn capacity, which needs to fulfill two conditions.

1) Requirement for success.
2) It gives the Strategic Advantage.

It has strengths more than the competitor; it could gain more than the Competitor. E.g. Superior research where new products & Innovations are required.

Weakness: It's something required for success is missing/inherent inadequacy. It gives strategic disadvantage to the organisation. E.g. over dependence on a single product line in a mature market.

Core Competencies: Is developed over a period of time, using these competencies firm can have competitive advantage.

Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its weaknesses and external threats. To attain superior profitability, the firm seeks to develop a competitive advantage over its rivals. A competitive advantage can be based on cost or differentiation.

(iv) Generate strategic alternatives/ evaluate & select

It means that there is a proper evaluation and exercising a choice from various alternative available resources in such a way it may lead to the achievement of company's objective.

The selected strategy is implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives.

(v) Implement/ feedback/control

The way in which the strategy is implemented can have a significant impact on whether it will be successful. In a large company, those who implement the strategy likely will be different people from those who formulated it. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if lower-level managers resist its implementation because they do not understand why the particular strategy was selected

The implementation of the strategy must be monitored and adjustments made as needed. Evaluation and control consists of the following steps:

1. Define parameters to be measured
2. Define target values for those parameters
3. Perform measurements
4. Compare measured results to the pre-defined standard
5. Make necessary changes

Terminology

The strategic management process: A management process designed to achieve the firm's missions and objectives.

Strategic competitiveness: It is achieved when a firm successfully formulates and implements a value creating strategy.

SBU: A strategic business unit is a distinct business, with its own business mission, product line, market share and competitors that can be managed reasonably independently of other businesses within the organisations.

Value chain: The notion that an enterprise receives inputs from suppliers of resources transforms them into outputs and channels the outputs to buyers, adding value at each point in the process.

Business level strategy: A competitive strategy that focuses on meeting competition, protecting market share and achieving profits at the business unit level.

Strategic Control: Monitoring and evaluating the strategic management process as a whole, in order to make sure that it is operating properly.

Module-2

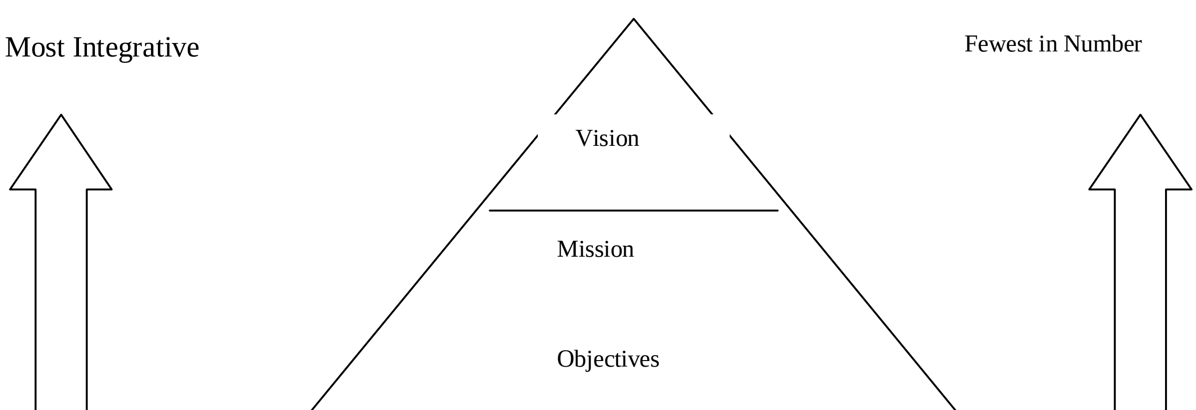
Hand out by Prof Bholanath Dutta

***Strategy Formulation**- Developing Strategic vision and mission for a company – setting objectives – Strategic objectives and Financial Objectives – Balanced score card – company goals and company philosophy – the hierarchy of strategic intent – merging the strategic vision objectives and strategy into a strategic plan.*

Introduction

'Strategic Intent' is the leveraging of a firm's internal resources, capabilities and core competencies to accomplish the firm's vision, mission and objectives in a competitive environment. It is all about winning competitive battles and gaining leadership position by putting organizational resources to best use. When established effectively, a strategic intent can cause people to turn out excellent performance (Hammel and Prahalad, 1989). Strategic intent is said to exist when all employees and levels of a firm are committed to the pursuit of a specific but significant performance target (Hammel and Prahalad, 1994). The intent can take the form of a broad vision or mission statement or a more focused route covering specific objectives and goals (Richards). In a way, thus, strategic intent tries to establish the parameters that shape the values, motives and actions of people throughout their organisation (R Howard).

The hierarchy of strategic intent



Most Specific

Greatest in Number

<u>Vision</u>

Vision is what keeps the organization moving forward. Vision is the motivator in an organization. It needs to be meaningful with a long term perspective so that it can motivate people even when the organization is facing discouraging odds.

Vision provides a big perspective of:

- Who are we?
- What are we trying to do?
- How do we want to go about it?
- Where are we headed?

In strategic management process, visioning comes first. Martin Luther Kind Jr. said, 'I have a dream', and what followed was a vision that changed a nation. Vision is simply a combination of 3 basic elements:

- An organization's fundamental reason for existence beyond just making money.
- Its timeless, unchanging core values. The core values define the enduring character of an organisation that remains unchanged as it experiences changes in technology, competition, management styles etc.
- High and audacious but achievable aspirations for its future.

<u>Example of corporate vision statements:</u>

i) ***BHEL***: A world class innovative, competitive and profitable engineering enterprise providing total business solution.

ii) ***Colgate-Palmolive:*** To be company of first choice in oral and personal hygiene by continuously caring for consumers and partners.

iii) ***NTPC:*** To make available, reliable and quality power in increasingly large quantities.

iv) ***HUL:*** Our vision is to meet the everyday needs of people everywhere.

v) ***Ford Motors:*** The Ford Foundation is a resource for innovative people and institutions worldwide. Out goals are to

- Strengthen democratic values
- Reduce poverty and injustice
- Promote international cooperation and
- Advance human achievement

Characteristics

(i) Clarity: Vision is a vividly descriptive image of what a company wants to be or wants to be known for in future. Of course the projected future is not something that can be reached in normal course; it requires a quantum leap.

(ii) Reachable, achievable: There is a certain amount of controversy on this issue. Some CEOs feel that vision should be abstract, inspirational and should not be reachable. A difficult target will stretch people to the extreme and compel them to scale new heights every year. Others feel that there is no use chasing a pie in the sky. Vision must be clear and within a reasonable distance so that people do not get frustrated after repeated attempts result in failures.

(iii) Brevity: Some CEOs feel that the vision statement should be pithy enough to be read, understood and preferably memorized quickly. It should be short enough to be written on the back of even a business card. Others, however, feel that brevity should not be at the cost of clarity.

Building vision

The vision statement should be built around the core values of the organization and the people within it. The statement should be designed to orient the group's energies towards the core values and serve as a guide to action. Sony's vision rests on the values of encouraging individual creativity and its determination to be a pioneer. Such core values reflect how you want your future to look. Values, thus, are the essential glue of vision.

Creating a Shared Vision

Most managers, now-a-days, talk about a shared vision, meaning that individuals from across the organisation have a common mental image and a mutually supported set of aspirations that serve to unite their efforts. People at all levels must share a common inspirational image that compels them to give their best and realize their own dreams.

The vision once finalized, must be injected into the veins of the organisation, being shared, owned and lived by every single person in the company.

Cutting a stone or building a cathedral?

The importance of having a shared vision is best illustrated by the story of a traveler passing a stone quarry who came across three people cutting stones. He asked the first: “What are you ding? And he replied irritable. “Can’t you see, I am cutting a stone? When he went further, he saw the second man cutting a similar stone and he again asked, “what are you doing?” and the man replied, ‘I am earning a living.”. A little further he came across a third man cutting another stone. When he asked, “what are you doing?” the man thrust his chest out proudly and said, “I am building a cathedral.”

Mission

Organisations are founded for a purpose. Although the purpose may change over time, it is essential that stakeholders understand the reason for the organization’s existence, that is, the organization’s mission. The mission describes the organization’s values, aspirations and reason for being. Mission statement answers the questions:

- Why it is in existence?
- What it wants to be?
- Where exactly wants to go?
- Whom it wants to serve?

Characteristics

(i) Clarity: The mission should be clear enough to lead to action. The corporate dream must be presented in crystal-clear manner preferably in a positive tone. For example, SBI – With you, all the way.

(ii) Broad and enduring: the mission is a grand design of the firm’s future. It is a general statement of the firm’s intent, a kind of self image the firm intends to project for years to come. However, it should not be so narrow as to restrict the firm’s operations nor should it be too general to make itself meaningless. To make things clear, mission statements come in two forms: primary mission (a general category of business to be engaged in) and secondary mission (defining everything more specifically). TELCO, for example, is in the transportation business (primary business). It provides passenger car and truck products to a wide variety of customers and markets (secondary mission).

(iii) Identity and Image: The mission sets a firm apart from other firms of its style. Through this statement the firm wants to maintain its distinct image and character in terms of excellent quality and service, latest technology and unique product offerings etc. For example, Asian Paints stresses, ‘Leadership through excellence’; MTNL present itself as the ‘Lifeline of Delhi and Mumbai’;

(iv) Realistic: Missions should be realistic and achievable, of course, by running that extra mile. Air India would be deluding itself if it adopted the mission to become "the world's favourite airline".

(v) Specific: Missions should be specific. They must define the competitive scopes within which the company will operate, that is the range of industries in which a company will operate (industrial goods, consumer goods, services); the range of products and applications the company will supply; the range of core competencies that a company will master and leverage; the type of customers a company will serve; and the range of regions, countries in which a company will operate (kotler). McDonald's could probably enter the solar energy business, but that would not take advantage of its core competence – providing low cost food and fast service to large group of customers.

(vi) Values and Beliefs and Philosophy: The mission lays emphasis on the values the firm stands for – what it intends to do, so that it stands out in a crowd, what is unique about its offerings, how it strives to meet the needs of its customers, employees, suppliers and dealers.

(vii) Dynamic: The concept of mission is dynamic and not a static one. It must strike a happy balance between the narrow and broad ways of doing things in the years ahead; between the present requirements and future expectation. It is worth remembering that the future of a business is usually determined by the way it defines its business today. For a painfully long time, people in the film industry thought that they were in the movie business and not in the entertainment business

Examples of Mission Statements

BHEL: "To achieve and maintain a leading position as suppliers of quality equipment, system and service to serve the national and international market in the field of energy. The areas of interest would be the conversion, transmission, utilisation and conservation of energy for applications in the power, industrial and transportation fields, to strive for technological excellence and market leadership in these areas."

ONGC: "To stimulate, continue and accelerate efforts to develop and maximize the contribution of the energy sector to the economy of the country."

Cadbury India: "To attain leadership position in the confectionery market and achieve a strong national presence in the food drinks sector."

Ranbaxy Laboratories: "To become a research-based international pharmaceutical company."

How does mission help the firm?

(i) Reference Point: The mission guides the operations of a firm by providing proper directions and a sense of purpose. Objectives and strategies are generally designed, keeping the broad picture offered by mission in the background.

(ii) Educative Value: The mission educates people about corporate vision and purpose why the company is there, what existence it seeks, where it wants to go in future etc. When everyone is able to understand the corporate mission properly, a kind of unity of purpose is achieved.

(iii) Motivating Force: The mission offers a broad roadmap to all people. They draw meaning and direction from it. The targets are set, work is assigned, resources are committed to best use and people can now compare themselves against the benchmarks set by the along right paths. Mission helps people understand organizational priorities and commit resources accordingly.

(iv) Productive use of Resources: The mission helps ensure that the organisation will not pursue conflicting purposes. It does not allow the constituent elements of an organisation to move in different directions.

Components of a Mission Statement

A good mission statement reveals an organization's customers, products or service, markets, technology, concern for survival, philosophy, self-concept, concern for public image and concern for employees. These nine basic components serve as a practical framework for evaluating and writing mission statements (David):

- **Customers:** Who are the firm's customers?
- **Products or service:** What are the firm's major products or services?
- **Markets:** Geographically, where does the firm compete?
- **Technology:** Is the firm technologically current?
- **Concern for survival, growth and profitability.** Is the firm committed to growth and financial soundness?
- **Philosophy:** What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
- **Self-concept:** What is the firm's distinctive competence or major competitive advantage?
- **Concern for public image:** Is the firm responsive to social, community, and environmental concerns?
- **Concern for employees:** Are employees a valuable asset of the firm?

Objectives and Goals

Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals, which are generalized at t he company wide level. In this manner objectives make the goals operational. While goals may be qualitative, objectives tend to be more quantitative in specification. In this way they are measurable and comparable.

- **a)** Objectives are the ends that specify how the goals shall be achieved.
- **b)** They are concrete and specific and they are in contrast with the goals.
- **c)** Objectives make the goals operational and tend to Quantitative in specifications.
- **d)** Objectives are set in a way that what the organization has to achieve for its employees, shareholders, customers etc.,
- **e)** Objectives are in relation with the environment. They are the brains of Strategic Decision Making.
- **f)** They are framed in line with the vision/mission of the organization and it helps to pursue them.
- **g)** Objectives are invariably Quantitative and provide clear measures and standards for performance.
- **h)** It helps to see whether the Organization is in right track or not.
- **i)** Objectives should be concrete, specific, and understandable & should have clearly defined time frame.
- **j)** It must be measurable, actionable, challenging but controllable.
- **k)** There must be co-relation with other objectives.
- **l)** While setting objectives these are the factors to be evaluated. It should be specific at the level, which it is being set. It should not be either too narrow or too broad.
- **m)** There need to be multiplicity of objectives.
- **n)** It should be formulated at different time frames like short term, medium term, and long term & should be linked & consistent.
- **o)** Since its in relation with the environment it needs to check whether they are fulfilling the needs of customers, share holders etc.,

Roles of objectives:

Objectives are set and in a way they define what the organization has to achieve for its employees, share holders, customers etc. since objectives are set with the environment in mind they define its relationship with its environment. Objectives are framed in line with the vision/mission of the organization. This consistency helps the organization to pursue its vision and mission. Objectives become the basis for strategic decision-making, as the right strategies need to be formulated and implemented for achieving the objectives. Objectives are invariably quantitative. They provide clear measures and standards for performance. So they help in appraisal, to see if the organization is on the right track or not.

Objectives can be set at two levels:

(1) **Corporate level**: These are objectives that concern the business or organisation as a whole.

Examples of “corporate objectives might include:

• We aim for a return on investment of at least 15%

• We aim to achieve an operating profit of over £10 million on sales of at least £100 million

• We aim to increase earnings per share by at least 10% every year for the foreseeable future

(2) Functional level e.g. specific objectives for marketing activities

Examples of functional marketing objectives" might include:

• We aim to build customer database of at least 250,000 households within the next 12 months

• We aim to achieve a market share of 10%

• We aim to achieve 75% customer awareness of our brand in our target markets

Characteristics of objective

Both corporate and functional objectives need to conform to the commonly used SMART criteria.

Specific - the objective should state exactly what is to be achieved.

Measurable - an objective should be capable of measurement – so that it is possible to determine whether (or how far) it has been achieved

Achievable - the objective should be realistic given the circumstances in which it is set and the resources available to the business.

Relevant - objectives should be relevant to the people responsible for achieving them

Time Bound - objectives should be set with a time-frame in mind. These deadlines also need to be realistic.

Goals

Goals and targets are more precise and expressed in specific terms. They are stated in precise terms as quantatively as possible. The emphasis in goals is on measurement of progress toward the attainment of objectives. Goals have the following features, they:

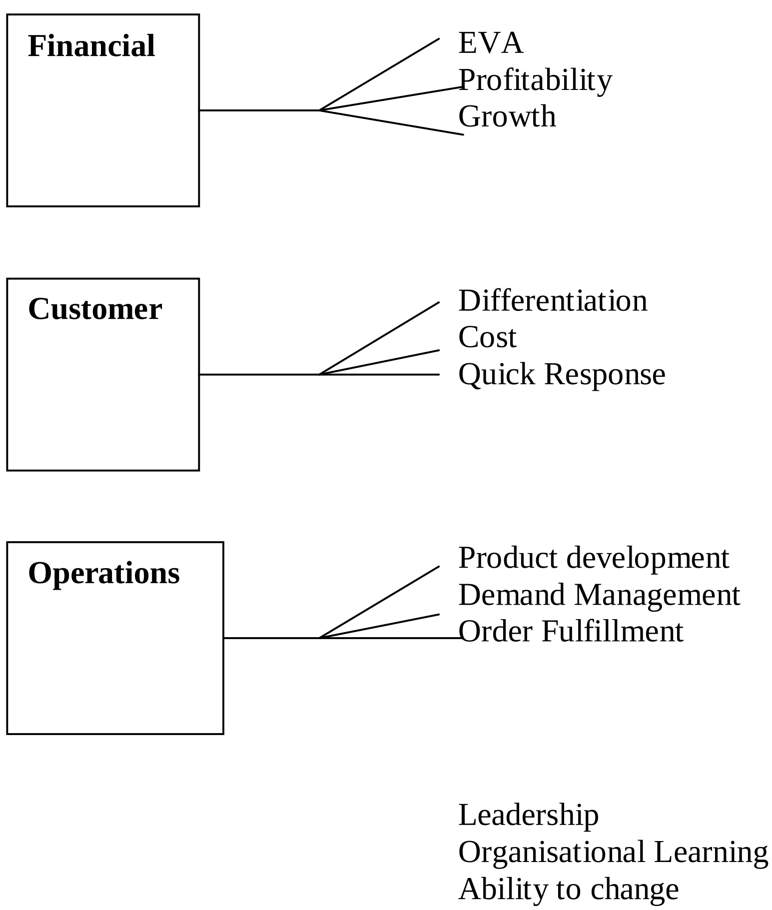
i) are derived from objectives
ii) offer a standard for measuring performance
iii) are expressed in concrete terms

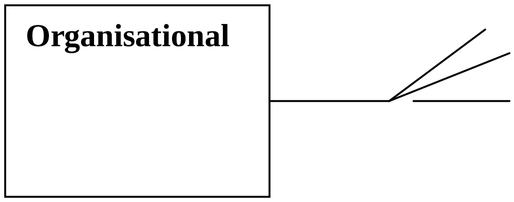
iv) are time-bound and work-oriented (Ansoff).

Balance Score Card

RS Kaplan and DP Norton came out with a popular, balanced score card approach in early 90s linking corporate goals with strategic actions undertaken at the business unit, departmental and individual level. The score card allows managers to evaluate a firm from different complementary perspectives. The arguments run this (i) A firm can offer superior returns to stakeholders if it has a competitive advantage in its product or service offerings when compared to its rivals. (ii) In order to sustain a competitive advantage, a firm must offer superior value to customers (iii) This, in turn, requires development of operations with necessary capabilities. (iv) In order to develop the needed operational capabilities, a firm requires the service of employees having requisite skills, creativity, diversity and motivations. Thus the performance as assessed in one perspective supports performance in other areas as shown below:

The Financial Perspective: Does the firm offer returns in excess of the total cost of capital, as suggested by the economic value added (EVA) model? EVA is the spread between a firm's return on invested capital minus its weighted average cost of capital, multiplied by the amount of capital invested. In other words, EVA is what is left over after a firm has covered all its factors of production (operating expenses, overheads, interest, taxes, plus fair return to shareholders). "To succeed financially, how should we appear to our shareholders? Is the question to be answered here?





Four perspectives of the Balanced Scorecard

The Customer's perspective: Does the firm provide the customer with superior value in terms of product differentiation, low cost and quick response.

The operation perspective: How effectively and efficiently do the core processes that produce customer value perform? Which are the most important sources of customer value, which need improving to offer greater customer value?

The Organisational perspective: Can this firm adapt to changes in its environment? Is its workforce committed to shared goals? Does the organisation learn from past mistakes? When confronted with a problem, does it go to work on root causes or does it only scratch the surface!

A properly constructed scorecard helps a firm strike a find balance between short and long term financial measures; financial and non-financial measures; internal and external performance perspectives. A firm's long-term strategy should take all the above perspectives into account while trying to match a firm's internal resources and capabilities with external opportunities.

Corporate success, ultimately, depends on how well a firm is able to extend its competitive advantage to new areas over a long period of time. As mentioned previously, competitive advantage comes from a firm's ability to perform activities (using its unique, durable, specialized, hard-to-imitate resources and skills etc. while serving the needs of customers) more effectively than rivals.

Terminology

Strategic Intent: It is the leveraging of a firm's resources and capabilities to accomplish the firm's goals in a competitive environment.

Vision: A vividly descriptive image of what a company wants to be or wants to be known for in future.

Shared vision: It means that individuals from across an organisation have a common mental image and a mutually supported set of aspirations that serve to unite their efforts.

Core competencies: Resources and capabilities that serve as a source of competitive advantage for a firm over its rivals.

Social audit: A systematic evaluation of a company's activities in terms of their social impact.

Whistle-blowing: Reporting perceived unethical organizational practices to outside authorities.

Corporate philanthropy: Charitable donation of company resources.

Module-3

Hand out by Prof Bholanath Dutta

***Analysing a company's external environment* –** The strategically relevant components of a company's external environment – industry analysis – porter's dominant economic features – competitive environment analysis- porter's five force model - industry driving forces – key success factors – concept and implementation.

Introduction

Managers must have a deep understanding and appreciation of the environment in which they and their organisations function. The environment of business is the 'aggregate of conditions, events and influences that surround and affect it' (Davis). Since the organisation is part of a broader social system, it has to work within the framework provided by the society and its innumerable constituents.

Features of Environment

Complex: The environment comprises of multifarious events, factors, conditions and influences arising from various sources. They interact with each other constantly and often produce an entirely new set of influences. It is not easy to state clearly as to what kind of forces constitutes a given environment.

Dynamic: The environment of an organisation is dynamic and constantly changing. Changes in technology, government regulations, competitive forces etc. compel organisations to shift gears and change direction quite often. At times, there could be too many changes in too little time, leading to shocks and surprises in the maker place.

Challenging: All firms are impacted by political, legal, economic, technological and social systems and trends. Together, these elements comprise the macro-environment of business firms. Because these forces are so dynamic their constant change presents myriad opportunities and threats or constraints to strategic managers.

Environment: External & Internal

Environmental Analysis

Environmental analysis is the process of monitoring the organizational environment to identify both present and future threats and opportunities that may influence the firm's ability to reach its goals.

Components of External Environments

(i) Economic environment: Economic factors throw light on the nature and direction of the economy in which a firm operates – national and international economic scenario: availability of credit, interest rate, inflation, unemployment rate, GDP, fiscal deficit, movement in stock exchange, growth rates of agriculture, industry infrastructure etc.

(ii) Social and Cultural environment:

Demographic factors: Population, age, religious composition, literacy levels, inter-state migration, rural-urban mobility, income distribution etc. influence a firm's strategic plans significantly.

Cultural factors: Social attitudes, values, customs, beliefs, rituals and practices also influence business practices in a major way.

Big MAC eyes lunch market in India

McDonald's, the fast good giant, has not been able to make much headway into the lunch market in India due to certain erroneous perceptions in the minds of office executives and students looking for a hurried and affordable lunch which is hygienic. One reason was its premium look, carrying the tag that it is meant for high society. Another reason, traced after a series of customer surveys, was the non-oily and less- spicy nature of food. A third one was its non-vegetarian label. To overcome these perceptions, McDonalds introduced three meal opinions. Pizza Mc Puff (Rs. 39), Chicken Mc Grill (Rs. 49) and Maharaja Mac (Rs. 84) at various prices. To come closer to the vegetarians, it has introduced, Pizza McPuff, Mc Aloo Tikki, Paneer Salsa wrap quite successfully. These product innovations are now extended to consumers in other markets as well such as China, Hong Kong, UK and USA.

(iii) Religious, ethical and moral factors: Different religions faiths like Hindus, Muslims, Sikhs, Christians, Buddhists and Jains.

In case you have any further queries please post your queries to:
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Cola Satyagrapha (Outlook 24-03-2003)

The Muslim world dubbed the recent attack of USA against Iraq as war against the faith, religion and Allah. To register their deep anguish, resentment and protest, the whole Muslim world has decided to boycott popular American symbols like McDonald's, Pepsi, Coca Cola. The new 'cola' brands in the form of Quibla cola in Britain, Mecca Cola in France and West Asia, Zum Zum cola in Iran are new symbols of Islamic protest against American domination.

Ethical and morale factors: Corruption, political instability, respect elders, performs rituals etc.

(iv) Political Environment: Many political factors influence how mangers formulate and implement strategic direction.

(v) Legal Environment: Wage fixation, managerial remuneration, safety and health at work, location of plants, entry of multinationals, price control, import-export policy, licensing policy etc.

(vi) Technological Environment: Technologically breakthroughs can dramatically influence the organization's products, services markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices and competitive position.

(vii) Natural Environment: The natural environment comprises of ecological, geographical and topographical factors (such as natural resources, weather, climate, location etc) that are relevant to business.

(viii) International Environment: International developments can greatly impact the ability of an organisation to do business abroad. For example, fluctuations of the rupee against foreign currencies influence the ability of an Indian economy to compete in global markets.

(ix) Task/operating/competitive environment: Clients, competitors, suppliers and labour.

Components of Internal Environment

(i) Organisational aspect: structure, communication network, record of success, hierarchy of objective, policies, procedures and rules, ability of management team.

(ii) Marketing aspect: Market segmentation, product strategy, pricing strategy, promotion strategy, distribution strategy.

(iii) Financial aspect: Liquidity, profitability, activity, investment opportunity.

(iv) Personnel aspect: Labour relations, recruitments practices, training programmes, performance appraisal systems, incentive systems, turnover and absenteeism.

(v) Production aspects: Plant facility layout, research and development, use of technology, purchasing of raw materials, inventory control, use of subcontracting.

(vi) Managerial aspects: Management style, management competence, managerial values and norms.

Environmental Scanning

Environmental analysis or scanning is a process by which organisations monitor their internal and external environment to spot opportunities and threats affecting their business.

Importance sources of information:

International sources: world development report, world economic survey, statistical year book

Government sources: census of India, five year plan reports, India year book, economic survey, CMIE Report, monthly bulletins of RBI, Indian trade journal.

Other sources: BSE Directory, economic times, other business news paper and magazine, McKinsey reports, fortune, political weekly.

Technique:

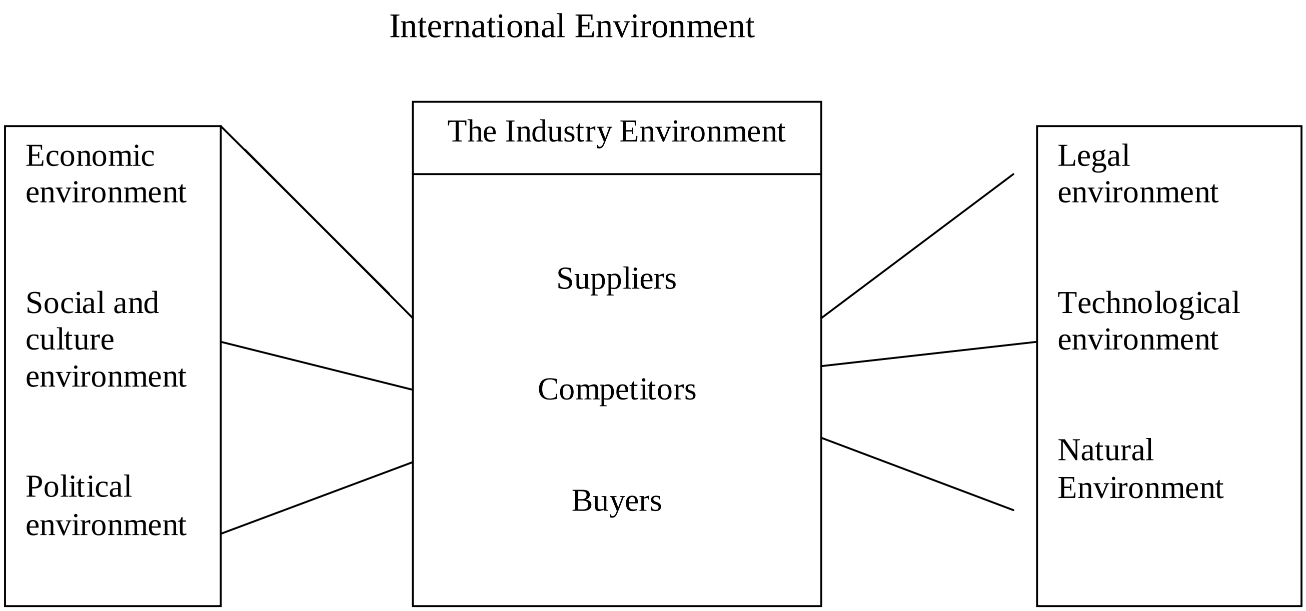
SWOT Analysis, ETOP (environmental threat and opportunity profile).

Forecasting Techniques: Time series analysis, judgmental forecasting, Delphi techniques, expert opinion,

Scenario Building

The environments surrounding most firms are varied, complex and challenging. It is not easy to present the collected data in a simple, easy-to-understand format. Scenario building is a useful way of solving this complexity. Scenarios are stories about what future environment might hold and how a firm might respond to this future. Scenarios' help strategists in focusing attention on the emerging picture after thoroughly analyzing the pros and cons of a particular situation by integrating objective and subjective parts of various factors. Scenarios help managers to predict how things will turn out, explain what forces will shape the future and have a feel for the situations that are likely to unfold.

Industry Analysis



The Industrial Environment of the Firm

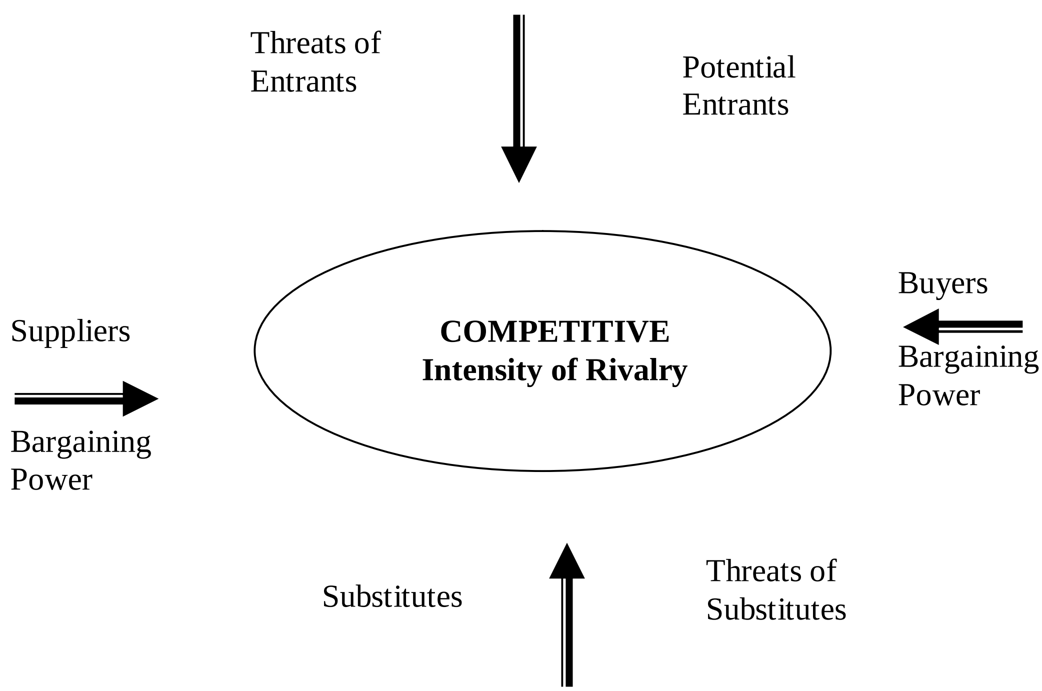
Industry analysis helps a firm find answers to two questions basically: "What characteristics of the industry are important?" And "how can a manager enhance performance given those characteristics?".

Industry characteristics that could impact a Firm's Performance

- The number of firms in the industry
- The level and pattern of promotional expenditures
- The rate and nature of technological competition
- The relative size of firms
- Consumer preferences for the product and for related products
- The rate of demand growth

- The extent of product differentiation
- The price behaviors of the leading firms
- The minimum efficient scale of production
- Buyer switching costs
- Demand-side economies of scale
- Specificity of plant and equipment to industry etc.

Porter's Five Forces Model



The Five Forces Model, developed by Michael Porter, provides the groundwork for strategic action. Competitive forces determine profitability and are therefore of foremost importance to the firm. Competition is not manifested only in the other players. Competition is rooted in the underlying economic structure. Customers, suppliers, potential entrants and substitute products, all have the potential to impact the market depending on the industry.

1) Threats of Entry: New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Gaining entry is always not easy as there are barriers to entry. (i) The economies of scale prohibit entry by forcing the aspirant either to come in on a large scale or to accept a cost disadvantage (ii) brand identification (product differentiation) creates a strong barrier by forcing entrants to spend heavily to overcome customer loyalty (remember lux, bournvita, vicks, good day) (iii) The need to invest large financial resources in order to compete creates a barrier to entry (iv) Entrenched companies many have cost advantages not available to potential rivals, no matter what their size and attainable economies of scale. (vi) The government can limit or even foreclose entry to industries, with such controls as license requirements, and limits on access to raw material.

2) Powerful Supplier: This is a situation where suppliers can force buyers to pay higher prices and thus affect their profitability. This would happen if the supplier enjoys monopoly, where the switching cost of the buyer is substantially higher, where the industry is not as important customer of the supplier group, where it sells products having no substitutes etc.

3) Powerful buyers: Customers likewise can force down prices, demand higher quality or more service and play competition against each other – all at the expense of industry profits. This can usually happen when buyers have choice of substitutes or an alternative source of suppliers for the same product. Also, high buyer concentration, threat of backward integration, and low switching costs add to the power of buyers.

4) Substitute products: By placing a ceiling on the prices it can charge, substitute products or services limit the potential of an industry. For example, Jute industry suffered badly after facing competition from petro-chemical based packing products. The demand for fibre glass suffered likewise when insulation substitutes emerged in the form of cellulose rockwool and Styrofoam.

5) Intensity of Rivalry: There is competitive rivalry between firms on a continuing basis, the various players in a particular sector or niche try to constantly jockey for position and try new product and process innovation in order to develop a strategic edge and hence a stronger position in the competitive space. Intense rivalry is related to a number of factors; competitors are large in number and of comparable sizes; industry growth is slow; the product or service has low switching costs; fixed costs are high; the product is perishable; exist barriers are high etc.

Example:

Entry barriers: Economies of scale, proprietary produce difference, brand identity, capital requirements, cost disadvantages, access to distribution channels, government policy.

Determination of substitution threat: Relative price performance of , substitutes, switching costs, buyer propensity of substitutes.

Determinants of supplier power: Differentiation of inputs, switching costs, presence of substitute inputs, supplier concentration, importance of supply volumes, total purchase in industry, impact of inputs on cost, threat of backward integration.

Determinants of buyer power: Buyer vs fir concentration, buyer volume, switching costs, buyer information, substitute products, product differences, brand identity, quality performance.

***Industry competitors* –** intensity of rivalry: Industry growth, fixed costs, value, capacity, product differences, brand identity, switching costs, corporate stakes, diversity of competitors, exit barriers.

Critical Success Factors (CSFs)

Strategic advantage profile (SAP) tries to find out organizational strengths and weaknesses in relation to certain CSF (advantage factors or competence factors) within a particular industry. Many industries have relatively small but extremely important sets of factors that are essential for successfully gaining and maintaining competitive advantages. Known as critical success factors (CSFs), they have a significant bearing on the overall growth of a firm within an industry. Research has identified four major sources of CSFs in general:

- ***Industry characteristics:*** CSFs are often industry-specific. CSFs supermarket chains include inventory turnover, product-mix, sales promotion and pricing. In the airline industry CSFs would be somewhat different, i.e. fuel efficiency, load factors, excellent reservation system etc. No one set of CSFs applies to all industries. As industries change, CSFs would also change.
- ***Competitive positions:*** CSFs vary with a firm’s position relative to its rivals in the field. Now-a-days old rivals Coke and Pepsi are discovering there is more money in water than coloured water.
- ***General environments:*** Changes in any of the dimensions of the general environment i.e. political/legal, socio cultural, demographic, technological, macroeconomic, global etc. can affect how CSFs emerge.
- ***Organisational developments:*** Internal developments, too, take the centre stage and give rise to new CSFs. For example if several key executives of an investment banking arm quit to form a competing ‘spin off firm’, rebuilding the executive team would become a key issue for the original firm.

Synergy

It is an important concept for mangers because it emphasizes the importance of working together in a cooperative and coordinated fashion. To obtain special benefits in the form of cost savings, better grip over the market, full exploitation of scarce managerial talent, joint sharing of technology etc. firms are often , compelled to have good relations and strong alliances with suppliers, creditors and customers.

Terminology

Capability: Ability of a bundle of resource to perform an activity.

Competency: ability of an organisation to achieve its purpose. It is the ability to perform exceptionally well and increase the stock of targeted resources of a firm.

Core competencies: Activities that the firm performs especially well when compared to its competitors and through which the firm adds value to its goods and services over a long period of time.

Synergy: An economic effect in which the various parts of a firm contribute a unique source of heightened value to the firm when managed as a single, unified entity.

Module -4

Hand out by Prof Bholanath Dutta

Analyzing a company's resources and competitive position – Analysis of the company's present strategies – SWOT Analysis – Value Chain Analysis – Bench Marking.

Resource-Based Strategy (Grant)

The formulation of strategy usually begins with a mission statement that answers questions like: what is our business? Who are our customers? Which of their needs are we going to serve? In a dynamic world where customer preferences are flirting and the identity of customers and the technologies for serving them are fast-changing , a market-focused strategy may not provide the stability and constancy of direction needed as a foundation for long-term strategy. Hence, the need to define the firm's strategy in terms of what it is capable of doing, putting its internal resources and capabilities to best advantage.

The Resource Based View (RBV)

The RBV's basic premise is that each firm possesses a unique 'bundle' or resources – tangible and intangible assets and organizational capabilities to make use of those assets. Each firm develops competencies from these resources and when put to use effectively, these become the sources of the firm's competitive advantage (Miller).

Key elements of resource-based strategy:

- Pursue a strategy that exploits a firm's principal resources and capabilities (e.g. Ranbaxy, HDFC, Infosys)
- Ensure that the firm's key resources are exploited fully to realize the full profit potential. For example spending close to five percent on R& D where the industry average is just a percent or so, Sundaram Fasteners today has developed world class design and development facilities and world class tooling capabilities that have helped it remain miles ahead of its competitors in terms of quality, customer service and profits.
- Fill the critical resource gaps.

Resources

(i) Assets

Tangible assets: organization structure, finance, planning , controlling, equipments, machineries, vehicles, computers, building etc.

Intangible assets: knowledge, skill, expertise, ideas, style, creativity, culture, brand name, perception of product, databases of customer-competitor-suppliers, patents, trademarks etc.

(ii) Skill

Capabilities & Competencies

Capabilities reflect a firm's capacity to deploy resources that have been purposefully integrated to achieve a desired end state. They emerge over time through a complex process of interaction between tangible and intangible resources.

The term competency refers to the ability of an organisation to achieve its purpose. It is the ability to perform exceptionally well and increase the stock of targeted resources of an organisation. Hamel and Prahalad coined the term 'core competence' to distinguish those capabilities fundamental to a firm's performance and strategy.

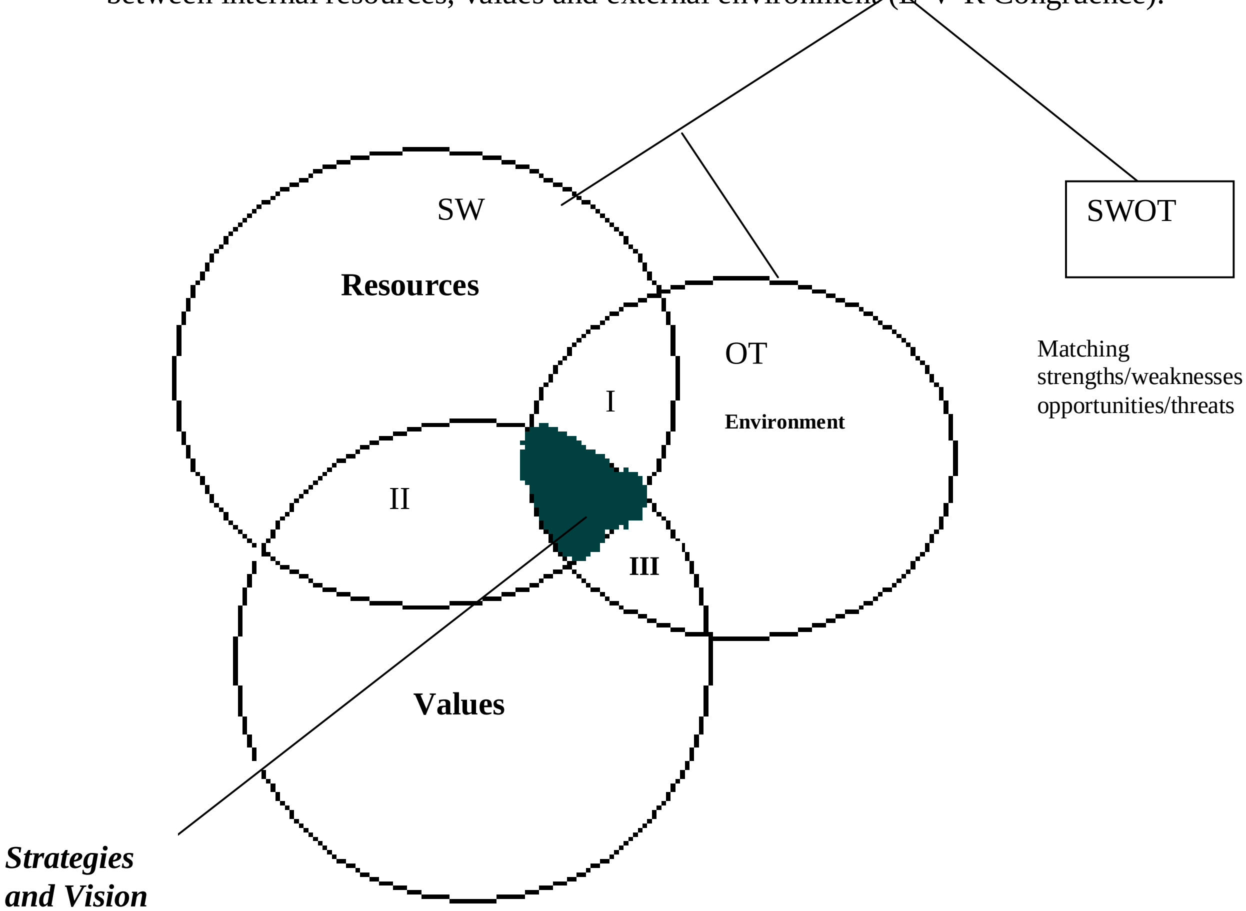
Organisational capabilities and competitive advantage

- Patents
- Licenses
- Location
- Distribution channel
- Employee motivation and skills
- Design skills, process improvements
- Interrelationship- relationships with other similar businesses.

Approaches to Internal Analysis:

SWOT Analysis

SWOT is an acronym for the internal strengths and weaknesses of a firm and the external opportunities and threats facing that firm. SWOT analysis helps managers to have a quick overview of the firm's strategic situation and assess whether there is a sound 'fit' between internal resources, values and external environment (E-V-R Congruence).



E-V-R Congruence. The greater the congruence the greater the likelihood that the organisation is managing its resources effectively to match the key success factors dictated by the environment.

A good 'fit' maximizes a firm's strengths and opportunities and minimizes its weaknesses and threats. The external analysis provides useful information required to identify opportunities and threats in a firm's environment.

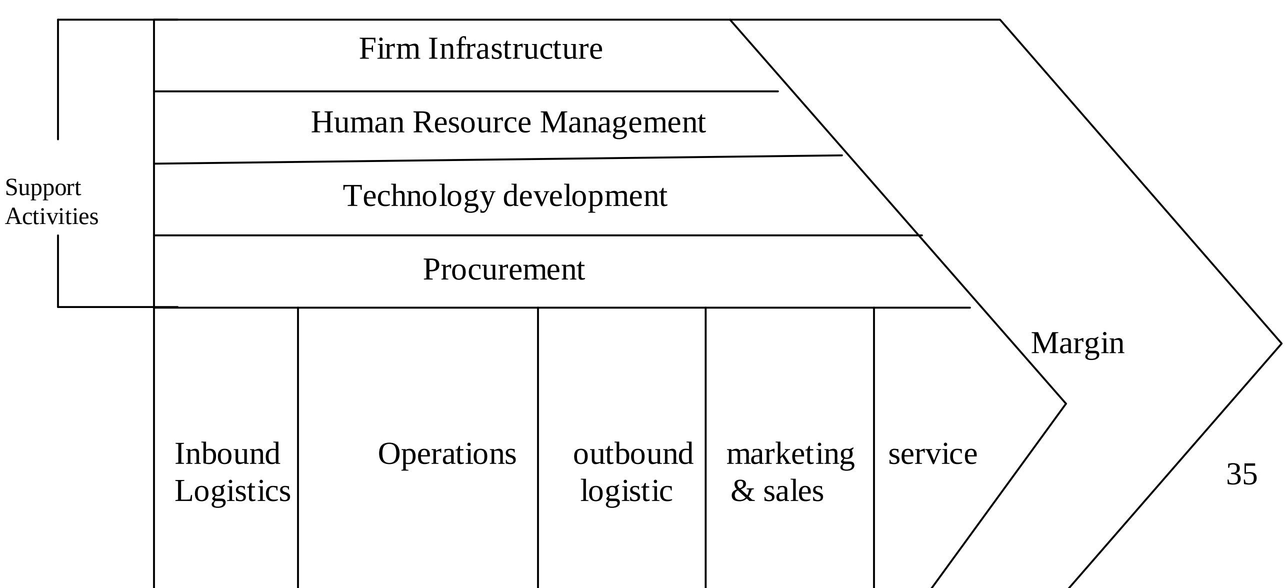
Strength	***Weaknesses***
- A distinctive competence? - Adequate financial resources? - Good competitive skills? - Well thought of by buyers? - All acknowledged market leader? - Well –conceived functional area strategies? - Access to economies of scale? - Insulated (at least somewhat) from strong competitive technology? - Proprietary technology? - Cost advantage - Competitive advantage? - Product innovation abilities? - Other? -	- No clear strategic direction? - A deteriorating competitive position? - Obsolete facilities? - Lack of managerial depth and talent? - Missing any key skills or competencies? - Poor track record in implementing strategy? - Plagued with internal operating problems? - Vulnerable to competitive pressures? - Falling behind in R & D. - Too narrow a product line? - Weak market image? - Competitive disadvantages? - Below-average marketing skills? - Unable to finance needed changes in strategy? - Other?
External Analysis	

Opportunities	***Threats***
- Enter new market segments? - Add to product line? - Diversity into related products? - Add complementary products? - Vertical integration? - Ability to move to better strategic group? - Complacency among rival firms? - Faster market growth? - Other?	- Likely entry of new competitors? - Rising sales of substitute products? - Slower market growth? - Adverse government policies? - Growing competitive policies? - Vulnerability to recession and business cycle? - Growing bargaining power of customers or suppliers? - Adverse demographic changes? - Other?

Value Chain Analysis (VCA)

A value chain identifies and isolates the various economic value-adding activities (such as differentiating a product, lowering the cost, and meeting customer's needs quickly) that occur in some way in every firm. It portrays activities required to create value for customers of a given product or service. Value chain analysis, thus, offers an excellent means by which managers can find the strengths and weaknesses of each activity vis-à-vis the firm's competitors.

- Primary activities: operation, outbound logistic, marketing and sales, service.
- Support activities: HRM, Technological development, procurement etc.



Primary activities

The organization's value chain

Conducting a Value Chain Analysis

- **Identify activities:** VCA requires a firm to divide its operations into primary and support activity categories. Within each category a firm may typically perform a number of discrete activities that may reflect its key strengths or weaknesses. At this stage managers should desegregate what actually goes into various activities in a detailed manner.
- **Allocate cost:** VCA requires manager to assign costs and assets to each activity, which is totally different from what one finds in traditional cost accounting method.
- **Identify activities that differentiate the firm:** Here managers should try to identify several sources of differentiation advantage relative to competitors. Alex Miller has listed some of these advantages.
- **Examine the value chain:** Once the value chain has been described, managers should list the activities that are important to buyer satisfaction and market success. Keeping costs under strict vigil, offering value added service at each stage, doing things better than rivals are all part of this strategy.

VCA is most effective when managers try to draw comparisons with key competitors and improve the internal processes with a view to offer 'value for money' kind of services to customers.

Benchmarking

It is a popular tool of business management in corporate attempts to gain and maintain competitive advantage. The central essence of benchmarking is about learning how to improve business activity, processes and management. However, benchmarking as a term has been used widely to refer to many different activities. There is a wide variation in definitions used to describe 'benchmarking'. Some of the definitions are given below:

- A continuous systematic process for evaluating the products, services and work of organizations that are recognized as representing best practices for the purpose of organizational improvement – Spendolini, 1992.
- A continuous search for, and application of, significantly better practices that lead to superior competitive performance- Watson, 1993.
- A disciplined process that begins with a thorough search to identify best-practice-organizations, continues with the careful study of one's own practices and performance , progresses through systematic site visits and interviews , and concludes with an analysis of results, development of recommendations and implementation – Gravin, 1993.

The characteristics to emerge from these definitions are that benchmarking is:

- measurement via comparison
- continuous improvement
- systematic procedure in carrying out benchmarking activity

The process:

Benchmarking involves looking outside a particular business, organization, industry, region or country to examine how others achieve performance levels and to understand the processes they use. In this way benchmarking helps explain the processes behind excellent performance. When the lessons learnt from a benchmarking exercise are applied appropriately, they facilitate improved performance in critical functions within an organization or in key areas of the business environment.

Application of benchmarking involves four key steps:

i) Understand in detail existing business processes.
ii) Analyze the business processes of others
iii) Compare own business performance with that of others analyzed
iv) Implement the steps necessary to close the performance gap.

Benchmarking should not be considered a one-off exercise. To be effective, it must become an ongoing, integral part of an ongoing improvement process with the goal of keeping abreast of ever-improving best practice.

Types of Benchmarking

(i) Strategic benchmarking: Where businesses need to improve overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed. It involves considering high level aspects such as core competencies, developing new products and services and improving capabilities for dealing with changes in the external environment. Changes resulting from this type of benchmarking may be difficult to complement and take a long time to materialize.

(ii) Performance or competitive benchmarking: Businesses consider their position in relation to performance characteristics of key products and services. Benchmarking partners are drawn from the same sector. This type of analysis is often undertaken through consultants to protect confidentiality.

(iii) Process benchmarking: Focuses on improving specific critical processes and operations. Benchmarking partners are sought from best practice organizations that perform similar work or deliver similar services. Process benchmarking invariably involves producing process maps to facilitate comparison and analysis. This type of benchmarking generally results in short term benefits.

(iv) Functional benchmarking: Businesses look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements.

(v) Internal benchmarking: involves benchmarking businesses or operations from within the same organization. The advantage of internal benchmarking is that access to sensitive data and information is easier; standardized data is often readily available; and, usually less time and resources are needed. There may be fewer barriers to implementation as practices may be relatively easy to transfer across the same organization. However, real innovation may be lacking and best in class performance is more likely to be found through external benchmarking.

(vi) External Benchmarking: Involves analyzing outside organisations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the ‘leading edge’. This type of benchmarking can take up significant time and resource to ensure the comparability of data and information the credibility of the findings and the development of sound recommendations.

(vii) International benchmarking: Best practitioners are identified and analyzed elsewhere in the world, perhaps because there are too few benchmarking partners within the same country to produce valid results. Globalization and advances in information technology are increasing opportunities for international projects. However, the results may need careful analysis due to national differences.

Terminology and Definitions

Econometrics: It is a branch of economics that uses mathematical methods and models – calculus, probability, statistics, linear programming, and game theory, as well as other areas of mathematics – to analyze, interpret, and predict various economic factors and systems, such as price and market action, production cost, business trends and economic policy.

Competitiveness profiling: Is a powerful tool for strategic analysis involves creating a simple profile of how our product matches up to what the market wants and our best competitors can offer.

Strategic Group analysis: Is the identification of groupings within the industry that have similar strategic characteristics, or follow similar strategies or are competing on similar bases.

Scenario Planning: In the strategic management context, scenarios can be described as 'stories of possible futures that might be encountered.' And scenario planning is a long term view, highlighting large-scale forces that push the future in different directions.

Delphi Panel: Is a technique of forecasting by experts using iteration with controlled feedback and statistical group response to project the result.

Module- 5

Hand Out by Prof Bholanath Dutta

Generic Competitive Strategies – Low cost – differentiation – best cost – focused strategies – strategic alliances – collaborative partnerships – mergers and acquisition – joint ventures strategies – outsourcing strategies – international business level strategies.

Porter's Competitive Strategies (Generic Competitive Strategies)

ME Porter studied a number of business organizations and proposed that business-level strategies are the result of five competitive forces in the company's environment that we have already discussed.

Porter suggested three generic strategies that managers might take up to make organisations more competitive:

Cost Leadership:

Cost leadership is a strategy that focuses on making an organisation more competitive by producing its products more cheaply than competitors can. The logic behind this strategy is that by producing products more cheaply than competitors and thereby hopes to increase market share. Nirma chemicals was able to challenge the might of Hindustan lever by pursuing this strategy aggressively, without, of course, sacrificing quality. For Example, Wal-mart , a typical industry cost leader, enjoys a competitive advantage due to a unique satellite-based distribution system; it generally keeps store location costs to a minimum by placing stores on low-cost land outside small to medium-sized southern towns. Most software companies in India enjoy the cost advantage in terms of low labour and location costs when compared to their western counterparts.

A low-cost strategy is not without risks. To be effective, the company in question should be the cost leader, not just one of several players. Otherwise, two or more companies vying for cost leadership can push prices to unremunerative levels.

Differentiation Strategy:

It involves attempting to develop products and services that are viewed as unique in the industry. Successful differentiation allows the business to charge premium prices, leading to above average profits. Differentiation can take many forms, for example, design or brand image (Rolex Watches, Levi's Jeans, Pepsi or Coca Cola for Brands) ; technology (Macintosh stereo components, Honda's vehicles); customer service (City band, HDFC), unique features (Mercedes Benz), Quality (Xerox copiers, Rolls Royce). Differentiation works best when the differentiating factor is both important to customers and difficult for competitors to imitate. If buyers are loyal to a company's brand, a differentiation strategy can reduce rivalry with competitors. Of course, when costs are too high, customers tastes and needs can change, so businesses following a differentiation strategy must carefully evaluate customer's shifting preferences from time to time.

Focus:

It is a strategy that emphasizes making an organisation more competitive by targeting a specific regional market, product line or buyer group. The organisation can use either a differentiation or low cost approach, but only for a narrow target market. The logic of this approach is that an organisation that limits its attention to one or a few market segments can serve those segments better than organisation that seeks to influence the entire market. For example, products such as Rolls-Royce automobiles, Titan Jewellery watches are designed to appeal to a narrow segment of the market and serve the same well instead of covering the whole ground.

Corporate Restructuring

With rapid advances in information technology and acute resources constraints across the globe, the business world has become more complex and fluid in recent times. To survive and compete, present-day organisations should do away with their existing culture, policies, structure and start with a clean sheet. They have to put more emphasis on the business process as a whole (both external and internal focus) and do everything to keep the smile on the customer's face. As rightly pointed out by Peter Drucker, 'every organisation must prepare to abandon every thing it does". Externally the organisation must search for new products, new service and new market opportunities, working with suppliers, distributors and customers to redefine markets and industries. Internally structures, management styles and cultures must be capable of creating and delivering these products and services. Strategic awareness, information management and change are very important if the organisation wants to get ahead of its competitors.

Corporate Restructuring, thus, involves destroying old paradigms, old technology, old ways of doing things and starting all over afresh. It demands a strong cultural willingness to make a clear beginning – taking a realistic look at one's company and deciding to reshape the whole place to remain continuously competitive.

The Process of Restructuring

The process of corporate restructuring, generally speaking, covers the following steps:

(i) Customer focus: Restructuring should, ideally speaking, begin and end with the customer. To succeed in a highly competitive world, every business will have to listen to the customer, find out what he needs and deliver more than what he expects.

(ii) Core Business Process: The organisation should make up its mind and decide what is it really good at making. Then it must divide itself into strategic business units – focusing on an individual core competency. Then it should divide the individual SBU into core business processes by deciding what product attributes, technologies, designs, skills etc. are most important from the customer's point of view. Once the key processes are identified, it is necessary to decide which areas need to be restructured and the order in which they should be handled – since restructuring all the processes simultaneously is not possible.

(iii) Structural changes through Reengineering: In order to respond to internal and external signals quickly and to bring about a radical change in core business processes, the organisation should have an appropriate structure. The conventional hierarchical structure fails to deliver the results here, as it is loaded with layers, rules, regulations and bureaucratic procedures. The challenge for the future is to teach an elephant to dance. Pyramids are tombs and they have to be ruthlessly demolished. The traditional double-digit hierarchies should yield ground to multi-disciplinary, autonomous work teams and task forces, sharing authority and decision-making powers while realizing goals. Such a structural shift makes many of the levels in the organisational structure where work gets organized processes (as opposed to functions).

(iv) Cultural Changes: A strategic change often requires changing the culture of an organisation. A culture change refers to a change in employees' values, norms, attitudes, beliefs and behaviour. Fuji – Xerox, for example, took several steps to implement such cultural change.

Methods of Restructuring (MEHTA)

The methods of corporate restructuring may broadly be classified into two categories:

(i) External restructuring: This can be carried out through asset restructuring or capital restructuring.

- ***Asset based*** restructuring is undertaken through (i) acquisition/takeover, merger/amalgamation: (ii) Asset swaps (entails divesting and acquisition of each others' business by two companies where the differences in valuation are settled either through cash payment by any other mutually agreed mode); (iii) demerger /spin off.
- ***Capital restructuring*** (also called financial restructuring) is carried out through (i) leveraged buyouts (ii) share buyback (buying back shares of the company whose valuations are tempting; the basic purpose is to enhance the value of shares to the remaining shareholders; (iii) conversion of debt to equity (undertaken to increase the profitability of a company).

(ii) Internal restructuring: This may involve portfolio restructuring or organisational restructuring. Portfolio changes are effected after the SWOT analysis of a company. Organisation-wide changes are adopted to ensure better service to customers.

Mergers and Acquisitions

A merger occurs when two or more organisations (usually of roughly similar sizes) combine to become one through an exchange of stock or cash or both. Mergers can take place in two different ways;

Acquisition: It is the purchase of a firm that is considerably larger. The firm that acquires is called the acquiring firm and other, the merging firm.

Consolidation: If both firms dissolve their identity to create a new firm, it is called consolidation.

The combining firms may join hands through a cooperative or hostile approach. A friendly merger takes place when both firms agree to combine their might in order to gain certain synergistic benefits like

(i) ***Marketing synergy-*** using common distribution channels, sales force, sales promotion etc.
(ii) ***Operating synergy-*** better use of facilities
(iii) ***Investment synergy*** – better uses of resources as in the case of mergers of banks or financial institutions.
(iv) ***Management synergy-*** using existing managerial talent in a judicious way.

It results in a carefully negotiated acquisition of one firm by another.

Hostile merger: Better known as takeover – refers to a surprise attempt by one company to acquire control (through the purchase of a controlling share of voting stock in a publicly traded company) of another company against the will of the current management. Organisations are more likely to become takeover targets when their performance lags below potential, negatively affecting their price of their stock but making them attractive targets for acquisition.

Types of Mergers:

Vertical mergers: It is a combination of two or more firms, not necessarily in the same line of business, having complimentarity in terms of supply of materials or marketing of goods and services. In vertical mergers the merging firm would either be a supplier or a buyer using its product as intermediary product for final productions. For instance, a footwear company may merge with a leather tannery or a chain or retail shoe outlets.

Horizontal mergers: It is a combination of two or more firms in the same line of business; formed primarily to obtain economies of scale in production or broaden the product line, reduce working capital needs or eliminate competition, gain better control over market etc. for instance if Jet Airways combines with Indian Airlines it would be integrating horizontally. The same would be true if General Motors purchases Daewoo Motors Ltd for an agreed sum.

Concentric mergers: It is a combination of two or more firms somewhat related to each other in terms of customer functions, customer groups, production processes, or technologies used. Ansoff's example of concentric merger is of the motor manufacturer who decides also t manufacture farm machinery; the new customers are only somewhat similar to the old, the new product and its technology is only somewhat similar to a car and yet a car and the farmer are not wholly dissimilar – there is some commonality and hence scope for positive synergy.

Conglomerate mergers: It is a combination of two or more firms unrelated to each other. Rather than concentrating on having a common thread running through their company, top managers who pursue this strategy are chiefly concerned with the rate of return. Will proposed merger between a shipping company and an oil firm improve the company's overall profitability:?

Pitfalls

Mergers and acquisitions, however, do not always produce results. The reasons are fairly obvious. Culture-clash is often cited as one of the reasons. The acquiring firm might have an aggressive culture and the acquired on might be living in a different world altogether. According to Thompson, "the real weaknesses of the acquired company are hidden until after the acquisition and consequently are underestimated. Also underestimated are the cultural and managerial problems of merging two companies and then running them as one. As a result, insufficient managerial resources are devoted to the process of merging and hence the hoped-for synergy remains elusive."

Problems in achieving success through mergers

- Integration difficulties
- Inadequate evaluation of targets
- Large debt burden
- Inability to achieve synergy

- Too much diversification
- Managers overly focuses on acquisitions
- Too large.

Takeover of Sick Units in India

BIFR Case	Acquirer
Panjab Anand Batteries	ITC Limited
Kothari Electronics	Saha Group
Aluminium Industries Ltd	Sonami Grou
Jayanti Chemicals	Sri Krishna Keshav Labs Ltd
Premier Tyres	Apollo Tyres

Mergers

Name of Bank	Merged With
Lakshmi Commercial Bank	Canara Bank
Bank of Cochin	State Bank of India
United Industrial Bank	Allahabad Bank
Bank of Tamil Nadu	Indian Overseas Bank
Bank of Karad	Bank of India

Merger in Cell Phone Industry

City	Merger Deal
Mumbai	BPL and Hutchison Max BPL and Orange
Delhi	Air Tel and Essar Air Tel and Orange
Kolkata	Spice and Command
Bangalore	JT Mobile and Spice Airtel and Spice
Kerala	BPL and Escotel

Chennai	Sky Cell & RPG Airtel takes over Sky Cell

Restructuring Strategies:

Firms generally adopt three types of restructuring strategies: downsizing, downscoping and leveraged buyouts:

Downsizing: It is a reduction in the number of firm's employees and sometimes in the number of operating units, but it may or may not change the composition of businesses in the company's portfolio.

Downscoping: It is a way of eliminating businesses that are unrelated to a firm's core business. The firm wants to stick to its knitting and focus more closely on areas where it enjoys unbeatable strength. Downscoping may lead to downsizing as well. The firm becomes less diversified and it is easy for top management to better understand and manage the remaining businesses.

Leveraged Buyouts (LBOs): It is a restructuring strategy whereby a party buys all of a firm's assets in order to take the firm private. Once the deal is struck, the company's stock is no longer traded publicly. It is basically undertaken to correct managerial mistakes which may be partly responsible for the low valuations of the firm. LBOs are financed through debt generally.

Cooperative Strategies

Cooperative strategies (such as strategic alliances, joint ventures etc.) are a logical and timely response to intense and rapid changes in economic activity, technology and globalization. Apart from alliances between firms operating within the same country, cross-border alliances (alliances between companies with headquarters in different countries) have also become increasingly popular these days. Strategic alliances generally come in three basic types : joint ventures, strategic alliances and consortia.

Joint Ventures

Joint ventures are a special case of consolidation where two or more companies form a temporary partnership for a special purpose. Once the purpose is achieved (or the project is completed) the joint venture is terminated , with all profits distributed to (or losses recovered from) its members. From an Indian standpoint different joint ventures can take place between (i) Two firms in one industry (ii) two firms across different industries (iii) an Indian company and a foreign company in India (iv) an Indian company and a foreign company in that foreign country and (v) an Indian company and a foreign company in a third country. For example, the Tatas, the Birlas, the Kirloskars, the Goenkas, the Oberois have mainly grown in size during the license-permit raj through joint ventures of varius kinds in India.

Equity Strategic Alliances

In this case, partners own different percentages of equity in a new venture. Many foreign direct investments are completed through equity strategic alliances, such as those by Japanese and US companies in India (Maruti, Hero Honda, Birla-Tata-A&T, etc). Equity strategic alliances are more effective at transferring know-how between firms because they are close to hierarchical control than are non-equity alliances. Non-equity strategic alliances are formed through contractual agreements given to a company to supply, produce or distribute a firm's goods or services without equity sharing. Such contractual arrangements may cover marketing and information sharing activities too. Firms such as Coca Cola, Hilton, Hyatt, Holiday Inn, McDonald's and Pepsi have long engaged in licensing agreements with foreign distributors as a way to exploit new markets with standardized products that can profit from marketing economies.

Consortia

Consortia are defined as large interlocking relationships, cross holdings and equity stakes between businesses of an industry. There could be two forms of consortia:

(i) Multipartner Consortia: These are multi-partner alliances intended to share an underlying technology. One of the most important European based consortiums to date is Air Bus Industries. Airbus brings together four European aerospace firms from Britain, France, Germany and Spain. A common consortium arrangement binds each firm to certain stipulations.

(ii) Cross-holding consortia: Two important features of cross-holding consortia are building long-term focus and gaining technological critical mass among affiliated member companies. Example: Daewoo, Lucky-Gold star, Hyundai, Samsung. The supplier-buyer relationships help members stabilize their production volume. Each member could obtain needed components from other consortium members easily (especially for TV sets, VCR sets etc). All of them can pool resources and make huge fixed cost investments in key technologies. Further, there is a guaranteed internal market for components.

(iii) Tacit Collusion: Apart from the above explicit strategic alliances, there could be implicit cooperative arrangements. Tacit collusion is an example of such an arrangement. Tacit collusion exists when several firms in an industry cooperate tacitly to reduce industry output below the potential competitive level, thereby increasing prices above the competitive level. In the recent past, cement manufacturers in India, especially the Big Boys of the industry, have tried to regulate output and obtain better realizations per bag of cement through a tacit understanding in different parts of the country.

Reasons for Strategic Alliances

- New market entry
- Define future industry standards

- Learn and apply new technologies
- Fill gaps in product line

Risks and costs of alliances

- Incompatibility of partner
- Risk of knowledge/skills drain
- Risk of dependence

Pre-requisite for success

- Commitment
- Objectives
- Partner
- Agreement
- Flexibility
- Cultural gaps.

International Business Strategies

- Globalization
- Challenges
- Entry strategies

Terminology

Merger: A merger occurs when two ro more organisations (roughly similar size) combine to become one.

Acquisitions: It is the purchase of a firm by a firm that is considerably larger. The firm that acquires is called the acquiring firm and the other , the merging firm.

Takeovers: A takeover occurs when one firm buys another, sometimes against its will (a hostile takeover)

Profit center: It is an organisational unit that is accountable for both the revenues generated by its activities and the costs of those activities.

Consolidation: If both firms (say X and Y) dissolve their identify to create a new firm (say Z), it is called consolidation.

Joint ventures: A joint venture is when two or more firms create an independent company by combining parts of their assets.

Strategic Alliance: They are usually partnerships that exists for a definite period during which partners contribute their skills and expertise to a cooperative projects.

Consortia: They are defined as large interlocking relationships between businesses of an industry.

Module- 6

Hand Out by Prof Bholanath Dutta

Formulating long term and Grand Strategies – tailoring strategy to fit specific industry and company situation – long term objectives for grand strategies – innovation, integration and diversification – conglomerate, diversification, retrenchment, restructuring and turnaround – GE nine cell planning grid and BCG Matrix.

Introduction

Grand strategy is the general plan of major action by which a firm intends to achieve its long-term goals. It provides basic direction for the strategic actions of a firm. Most firms begin their operations as single-business units. Some firms continue to thrive due to their specialized operations and exclusive focus on a limited business arena. McDonald's, for instance, has been able to develop a steadily improved product line and keep its costs low by focusing on the fast food business alone. Walt-Mart, too, has benefited primarily from the retailing industry. However, operating in one industry may be risky if that industry face slow down. That's the reason many companies go for diversification into related or unrelated businesses.

Grand strategies fall into four general categories: growth/expansion, stability, retrenchment and combination.

Strategic Alternative

Growth/ Expansion	Stability	Retrenchment	Combination
Intensification - Market penetration. - Market development - Innovation Diversification - Horizontal- concentric, conglomerate - Vertical	- Incremental growth - Profit - Sustainable growth -Pause Strategy	- Divestment - Turnaround - Liquidation - Bankruptcy	- Joint ventures - Strategic alliances - Consortia

Growth/Expansion Strategy

Organisations generally seek growth in sales, market share or some other measure as a primary objective. When growth becomes a passion and organisations try to seek sizeable growth, (as against slow and steady growth) it takes the shape of an expansion strategy. The firm tries to redefine the business, enter new businesses, that are related or unrelated or look at its product portfolio more intensely. The firm can have as many alternatives as it wants by changing the mix of products, markets and functions.

When to adopt a growth strategy:

i) Growth must be manageable.
ii) Growth must take into account environmental demands.
iii) Growth should be the natural choice where the environment presents several opportunities and special concessions and incentives are readily available.

Why to pursue growth strategy?

i) To ensure survival: Ambassador car failed to grow and forced out of market.
ii) To obtain scale economics.
iii) To stimulate talent.
iv) To reach commanding heights.

Problems created by growth:

Growth, however, is not an unmixed blessing. In some firms growth beyond an optimum limit creates many problems. According to PF Drucker, a business that grows at an exponential rate would soon gobble up the world and all its resources. Growth at a high rate and for an extended period makes a business exceedingly vulnerable. It makes it all but impossible to manage it properly.

How to manage growth?

i) Minimum growth: The firm, initially, must set its growth targets both for the short-term and the long-term. It must meet these targets, of course, without losing its standing 9 in terms of sales, margins, market share) in the marketplace. It should be able to grow in economic performance and economic results.

ii) Optimum Growth: The Company should be able to strike a happy balance between risk and return on resources. It should be able to combine activities, products and business in a useful manner.

iii) Internal Preparation: Growth requires internal preparation. As pointed out by Drucker, 'When the opportunity for rapid growth will come in the life of a company cannot be predicted. But a company has to be ready. If a company is not ready, opportunity moves on and knocks at somebody else's door."

Strategic growth options: The Ansoff Matrix

	Current Products	New Products
Current Markets	Market Penetration	Product Development
New Markets	Market Development	Innovation

Market penetrations: It is the strategy of a firm that directs its resources to the profitable growth of a single product, in a single market with a single dominant technology. The firm tries to thoroughly exploit its expertise in a delimited competitive arena and increase the sale of its existing products in the existing markets by:

- Increasing sales to current customers (buy toothpaste and take toothbrush free offers).
- Woo customers from competitors' products. (offer the Santro car at an attractive, initial price to woo the potential buyers of Maruti Car)
- Convert non-users into users (draw the rural folks to buy toothpaste, colour televisions, Tata-sumo vehicle etc.)

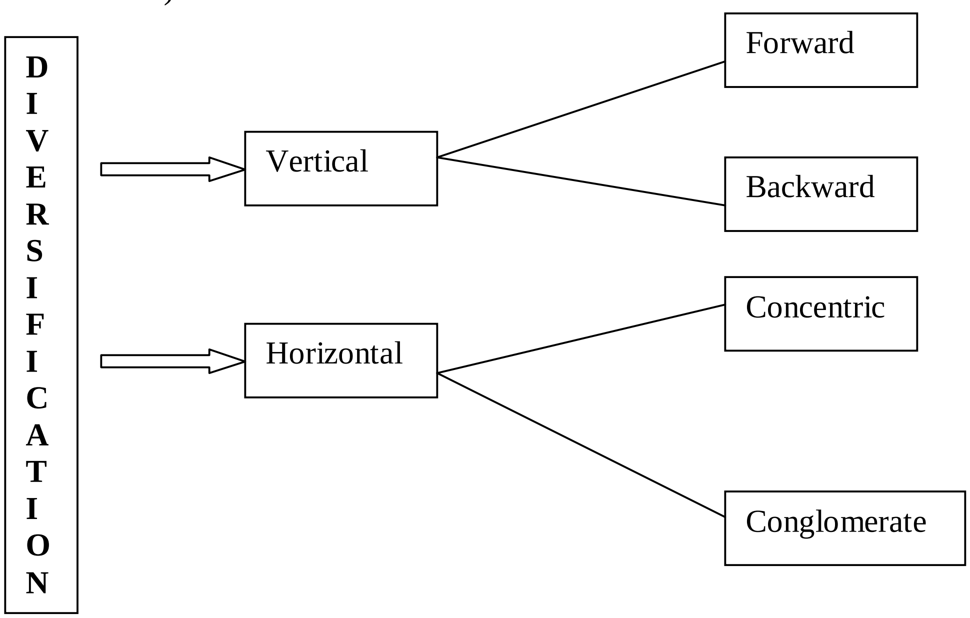
Market Development: It consists of marketing existing products in new markets. The firm tries to achieve growth by finding new uses for the existing products and tap new customers on that basis (within the country or outside the country). The firm can add new channels of distribution to expand the customer reach of the product. It can also enter new market segments by coming out with slightly different products for each price segment, undertaking cosmetics changes in colour, taste, and packaging etc.

Product Development: It tries to achieve growth through new products in existing markets. The new products in this case are not essentially new products, but improved versions of an existing product or substitutes serving the same need catering to the same market as at present.

Innovation: Here the organisation tries to develop new products or services and thereby makes similar existing products obsolete – unlike product development strategy which extends an existing product's life cycle. There could be radical innovations where the company tries to replace existing products or technologies in an industry. In the case of incremental innovations, the firm tries to put focus on new products or services that modify the existing ones. One example is Toyota's multi-utility vehicle Qualis.

Diversification strategy

A single product strategy is always a risky one. Because the firm has staked its survival on a single product (or a small basket of products like Colgate) the organisation has to work very hard to ensure the success of that product. If the product is not accepted by the market (like taking a big call on Indica by TELCO) or is replaced by a new one (the challenge of Close-Up from HLL to Colgate) the firm will suffer. Given the risk of a single product strategy, most large organisations today operate in several different businesses, industries or markets. Diversification describes the number of different businesses that an organisation is engaged in and the extent to which these businesses are related to one another).



Vertical Integration allows the firm to enlarge its scope of operations within the same overall industry.

Backward Integration: Asian Paints had integrated backwards to manufacture critical raw materials like Penstasia Chemicals and Pthalic anhydride in order to beat the vagaries of suppliers.

Forward Integration: Titan Company decided early on to forward integrate into retailing through company-owned shops, thus raising the entry cost for potential rivals, who would also have to build their own retailing networks to compete successfully.

Both-way; Indian Oil had to vertically integrate from refining, packaging, bottling to marketing and distribution – since none of these services were available outside.

Concentratic Diversification (Related diversification)

It occurs when an organisation diversifies into a related, but distinct business. With concentric diversification, the new businesses can be related to existing businesses through products, markets or technology. The new product is a spin-off from the existing facilities, products and processes. For example, Philip's the electronics major, decided to diversify into related businesses such as cellular phones, telecommunication equipment, electronic components etc. to exploit it core advantages in the form of related technology, strong distribution network etc. Like examples are IBM, HP, Microsoft etc.

Conglomerate diversification (Unrelated diversification)

It takes place when an organisation diversifies into areas that are unrelated to its current business. The decision to diversify into unrelated areas is generally undertaken by firms in volatile industries that are subject to rapid technological change. The obvious purpose is to reduce risk. It is also assumed that by restructuring the portfolio of businesses, the firm would be in a position to create value. Example: ITC's diversification into edible oils, hotels, financial services.

Stability Strategy

A stability strategy involves maintaining the status quo or growing in a methodical, but slow, manner. The firm follows a safety-oriented, status-quo-type strategy without effecting any major changes in its present operations. The resources are put on existing operations to achieve moderate, incremental growth. As such, the primary focus is on current products, markets and functions, maintaining the same level of effort as at present. Organisations might follow a stability strategy for a variety of reasons:

- Why rock the boat?
- Why not stop for a while?
- Why to swallow risk?
- Where are the resources?

Limitations:

Stability strategies would work only when the firm is doing well and the environment is not excessively volatile. However, present day organisations have to grapple with change continually. They have to operate in highly competitive and turbulent environments. So strategies of functioning along existing lines would work initially when the firm is able to carve out a niche for itself but would fail to work as new firms enter into the market or new developments in the business environment occur. It is true that future means change and adjustments to new situations and conditions. But it is better to indulge in proactive planning through strategic planning systems rather than living with low profits and low stockholder dividends year after year. Failure to improve profits over the long term means corporate death. The corporate graveyard is filled with the corpses of companies that failed to respond to changes in the environment.

Retrenchment Strategy

Retrenchment strategy is a corporate level, defensive strategy followed by a firm when its performance is disappointing or when its survival is at stake for a variety of reasons. Economic recessions, production inefficiencies, and innovative breakthroughs by competitors are only three causes. Managers choose retrenchment when they think that the firm is neither competitive enough to succeed through a counter attack (on market forces affecting its sales negatively) nor nimble enough (effecting fast changes) to be a fast follower. However, retrenchment does not mean death knell for every business under attack. Many healthy companies have faced life – threatening competitive situations in the past, successfully addressed their weaknesses and restored themselves.

Example: Xerox Company went through a terrible 2-year period in early 1980s when managers and analysts thought the firm might face bankruptcy because of crushing attacks from Japanese competitors like Cannon and Sharp. Xerox gave up considerable market share under this assault. However, it the decade that followed, the firm managed to fight its way back and regain much of the market share it had lost, by focusing on customer value and establishing its competitive advantage.

Retrenchment calls for a radical surgery to cut the 'extra fat' – say, laying off employees, dropping items from a production line, eliminating low-margin customer groups, avoiding elaborate promotional efforts etc. Apart from the above cost reductions, retrenchment calls for drastic steps to improve cash flows through sale of assets. Retrenchment strategy, as such, is adopted out of necessity, not by deliberate choice.

In fact retrenchment may take one of the following forms:

(i) Divestment strategy (also called divestiture or spin-off)

It involves the sale of those units or parts of a business that no longer contribute to or fit the firm's distinctive competence. The firm simply gets out of certain businesses and sells off units or divisions for various reasons.

Divestment may take one of three forms: (a) outright sale to another company (b) Leveraged Buy-out (LBO) and (c) Spin-off.

A leveraged buy out occurs when a company's shareholders are bought out (hence buyout) by the company's management and other private investors using borrowed funds (hence leveraged). In the last case, the parent company creates a new company, then distributes its shares to shareholders of the parent.

Reasons for divestment

- Strong focus
- Unlock critical funds
- Invest in emerging technologies
- A maker or policy
- Unviable projects.

Example: The Raymond group sold two of its units (1) steel division (to ERG India Pvt. Ltd for Rs. 142.20 crore) (2) cement division (to Lafarge for Rs. 740 crore) during 2000-2001 and realized Rs. 1126 crore. The unlocked funds are being used to add strength to its core business – garments, ready-mades and engineering files (apart from modernization, automation, and brand building in ready made).

Turnaround Strategies

A turnaround is designed to reverse a negative trend and bring the organisation back to normal health and profitability. The basic purpose of a turnaround is to transform the corporation into a leaner and more efficient team. It usually involves getting rid of unprofitable products, trimming the workforce, pruning distribution outlets and finding other useful ways of making the organisation more efficient. If the turnaround is successful, the organisation may then focus on growth strategy.

Conditions for Turnaround Strategies:

- Continuous cash flow problems
- Declining profits; lower profit margin
- High employee turnover
- Dwindling market share
- Low morale of employees
- Underutilization of capacity
- Raw material supply problems
- Rising input prices
- Strikes and lockouts
- Increased competition, uncompetitive products or services
- Recession
- Mismanagement etc.

Action Plan for Turnaround:

- Change the leader
- Change the price – depending on the elasticity of demand
- Focus attention on specific customer and specific products
- Extend the product's life through product improvements
- Replace existing products with new ones

- Focus on ‘power brands’ that are valued, visible and bring in most of the revenues of the firm; in short, rationalizing the products line.
- Liquidating assets for generating cash.
- Better internal coordination
- Emphasis on selling, advertising etc.

ITC Bhadrachalam (Paper): In 1997-98, ITC Bhadrachalam reported its first net loss of Rs. 48.9 crore in 15 years. Dismal paper prices , staggering interest costs of Rs. 68 crore pushed losses up to a record Rs. 98 crore the following year. The company began to clean up operation squcikly through a turnaround strategy advanced by Pradeep Dhobale (MD)

The strategy has three key elements

(i) Focus on value-added products such as premium paper boards which have better realizations (2) Benchmarking against global companies such as Metsa Serla of Finalnd , the company tried to reduce input costs of chemicals, water, energy and manpower. A Rs. 200 crore modernization programme was put in place to improve operational efficiencies (3) It replaced the high cost debt with cheaper loans. As a result of all these measures, the cost per tonne have come down to the tune of roughly Rs. 4,000 during 2000-1, capacity utilization has gone up from 68 percent to more than 100 percent now. Margins have improved dramatically. Apart from reporting healthy profits, the company expect to wipe out the Rs. 150 crore, it has accumulated in losses over the last three years during 2002-03.

Liquidation Strategy

This is a strategy to be followed as ‘last resort’. When neither a turnaround not a divestment seems feasible, liquidation is used. Liquidation involves selling or disposing of all or a part of an organization’s assets. Liquidation is generally followed when (i) the future of a unit looks bleak in terms of sales, profitability etc (ii) the unit has unmanageable accumulated losses (iii) some other firm is willing to buy the unit , to avail tax benefits (iv) it is not possible to revive the unit with the existing resources.

Planned liquidation is a worthwhile option because the assets of the liquidating firm can be sold gradually, securing greatest possible return to shareholders. According to the Companies Act, 1956, liquidation may be carried out in three ways: (i) compulsory winding up under an order of the court (ii) voluntary winding up and (iii) voluntary winding up under the supervision of the court. The Act provides for a liquidator who takes control of the company, sells its assets, pays its debts and distributes the surplus, if any to equity shareholders.

Bankruptcy

It is a means whereby an organisation that is unable to pay its debts can seek court protection from creditors and from certain contract obligations while it tries to regain financial health and stability (reorganization bankruptcy).

In case of a more serious one, liquidation bankruptcy , the liquidating firm agrees to distribute all assets to creditors, most of whom receive a small fraction of the amount they are owed. If the firm can convince its creditors about the revival of the firm in the near future , a reorganization bankruptcy comes into existence..(The Gujarat High Court in the recent past gave the debt-ridden Arvind Mills a breather by dismissing a petition filed by the lender banks for debts worth Rs. 2,634 crore – thus giving sometime for the company to replay loans gradually by selling off its assets and reorganizing its operations. Subsequently, all the 60 lenders have agreed for debt restructuring. As of now, Arvind Mills seems to be on course and with improved denim prices in the world market, should be able to ward off all kinds of threats from lenders.
Combination Strategies

Large, diversified organisations generally use a mixture of stability, expansion or retrenchment strategies either simultaneously (at the same time in various businesses) or sequentially (at different times in the same business).

Join Ventures:

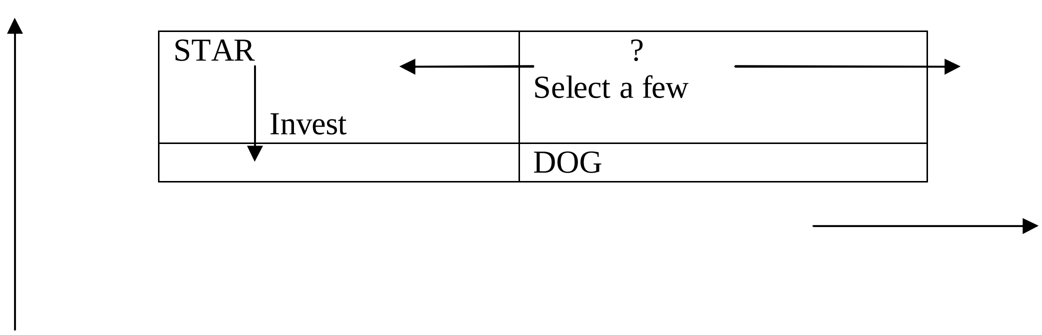
When two or more firms pool resources to accomplish a task that a firm could not accomplish, or that can be done more effectively by joining, the result is a joint venture. Like merger or acquisition, a joint venture is not a strategy but a way of implementing strategy. It helps a firm to undertake giant projects by spreading risks more efficiently. Example: Maruti & Suzuki, Hero & Honda.

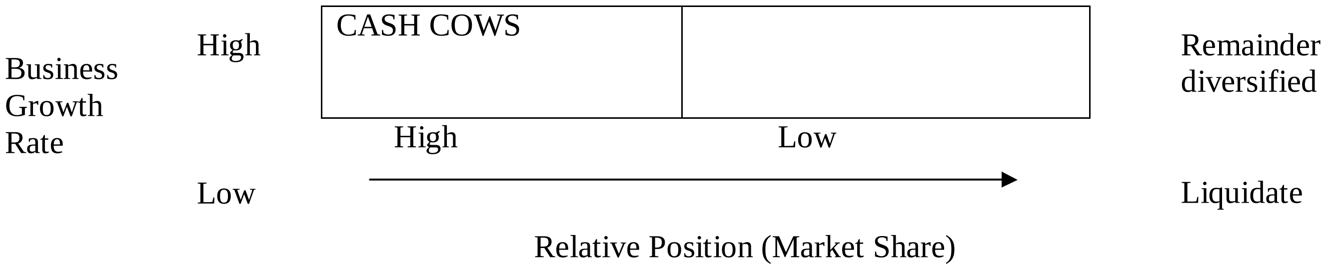
Strategic Alliance:

In a joint venture, the companies involved take an equity stake in one another. In strategic alliances, however, the partners contribute their skills and expertise to a cooperatively conceived and executed project for a specific period. Partners, during the said period, try to peep into each other’s know-how and learn from one another. Alliances could take the shape of a licensing agreement too, where licensor would transfer his property right over patents, trademark, technical know-how etc., to a licensee for a specified time in return for a royalty. Example: Outsourcing.

BCG Matrix:

Developed by Boston Consultancy Group, USA.





The BCG matrix reflects the contribution of the products offered by the firm to its cash flow. Based on this analysis, products are classified as stars, cash cows, question marks and dogs.

(i) Stars (high growth, high market share). Stars are in the upper left quadrant of the matrix.

- They grow rapidly
- They use large amounts of cash
- Are leaders in the business so they should also generate large amounts of cash
- There is generally a balance on new cash flow.

Over time , all growth slows. Therefore, starts eventually become cash cows if they hold their market share. If they fail to hold market share, they become dogs.

(ii) Cash Cows (low growth, high market share): Cash cows are in the lower left quadrant of the matrix.

- Such products are profitable and cash generation is high.
- Because of the low growth, investments needed should be low.
- Keep profits high.
- They form the foundation of an organization.

Cash cows pay the dividends; pay the interest on debt and cover the corporate overhead.

(iv) Dogs (low growth, high market share): Dogs are in the lower right quadrant.

- These products need to be avoided. You should try to minimize the number of dogs in a company.
- Beware of expensive ‘turn around plans’.
- As soon as they stop delivering cash, they should be phased out or otherwise liquidated.

They are essentially worthless and are generally cash traps.

(v) Question Marks (high growth, low market share): They are in the upper right quadrant.

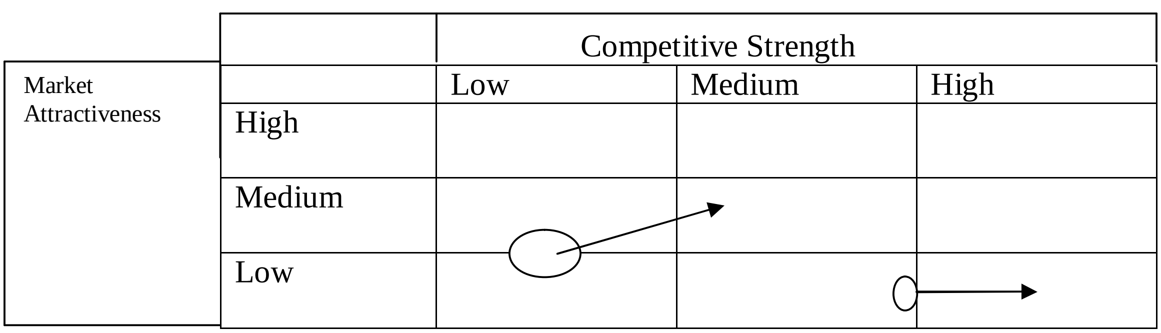
- These products have the worst cash characteristics of all, because high demands and low returns due to low market share.
- If nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, turn into dogs.
- Either invests heavily or sell off; or invest nothing and generate whatever cash it can. Either you should increase market share or deliver cash.

Question marks are the real gambles. Their cash needs are great because of their growth. Yet, their cash generation is very low because their market share is low.

The strategic implementations of this categorization appear obvious. The cash cows become the financiers of the other developing businesses of the organization. One funds the ‘stars’, decides what to do with the ‘question marks’ and gets rid of the dogs.

GE/McKinsey Matrix

GE’s Business screen is a more complex version of the BCG; however, it is derived from the same principles as the BCG Matrix. This model is an example of highly centralized planning specialists. This matrix is a model to perform a business portfolio analysis on the SBU of a corporation. SBU are portrayed as a circle plotted in the Matrix. Here the sizes of the circles represent the Market Size; the size of the pies represents the Market Share of the SBUs, and arrows represent the direction and the movement of the SBUs in the future.



The GE/McKinsey Matrix is a later and more advanced form of the BCG Matrix in three aspects, which are discussed below:

In this model, market growth is replaced by market (Industry) attractiveness as the dimension of industry attractiveness. Porter identified market growth as just one of the parameters of market attractiveness. Market attractiveness includes a broader range of factors other than just the market growth rate that can determine the attractiveness of an industry/market. Depending on the product characteristics, different parameters can be selected to measure 'market attractiveness'.

Typical factors that affect 'Market Attractiveness' are called 'drivers' and can be

- Market size
- Market growth rate
- Market profitability
- Pricing trends
- Competitive intensity/rivalry
- Overall risk of return in the industry
- Opportunity to differentiate products and services
- Demand variability
- Segmentation
- Distribution structure

Market share in the BCG Matrix is replaced by competitive strength. This is the dimension by which the competitive position of each SBU is assessed. Competitive strength likewise includes a broader range of factors other than just the market share that can determine the competitive strength of a SBU. Typical drivers of Competitive Strength of a SBU.

- Strength of assets and competencies
- Relative brand strength
- Market share
- Market share growth
- Customer loyalty
- Relative cost position (compared with competitors)
- Relative profit margins (compared to competitors)
- Distribution strength and production capacity
- Record of technological or other innovation
- Access to financial and other investment resources

Finally, it works with a 3,3 grid, while the BCG Matrix has only 2,2. This also allows for more sophistication. Using the GE/McKinsey involves a six-step approach. The different stages to implement the portfolios analysis include the following:

1. The drivers for each dimension are to be specified. The organisation must carefully determine those factors that are important to its overall strategy.

2. You must assign relative importance by giving weights to the drivers.

3. Score the SBUs on each driver and multiply weights times scores for each SBU to determine the value of each dimensions.

4. Repeat the exercise for each dimension.

5. View resulting graph and interpret it.

6. Perform a review/sensitivity analysis using adjusted weights and scores.

Though this matrix analysis is more sophisticated that many other similar tools, there are some important limitations. It has most of the advantages and limitations of the BCG matrix analysis. However, it has some specific characteristics that need to be understood.

- The company position/industry attractiveness screen is less precisely quantifiable than the growth/share matrix.
- This technique requires subjective criteria about where a particular business unit should be plotted.
- The screening technique reflects the assumption that each business unit is different and requires its own analysis of competitive position and industry attractiveness. Therefore, it is more vulnerable to manipulation.

The GE/McKinsey Matrix is also known as General Electric's stoplight grid.

Module- 7

Hand Out by Prof Bholanath Dutta

Strategy Implementation – ***Operationalizing strategy – annual objectives – developing functional strategies – developing and communicating concise policies-***

Institutionalizing the strategy – structure – leadership and culture – ethical process and corporate social responsibility.

Introduction

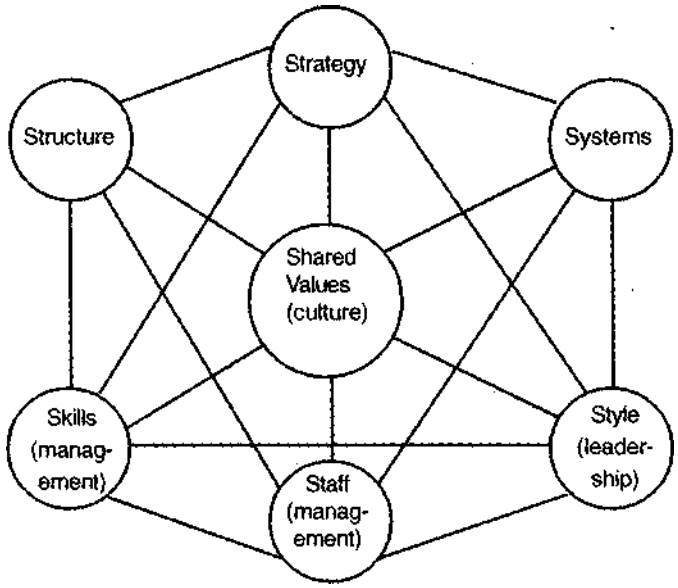
(Strategy implementation is a crucial issue because any strategy is as good as the effort behind lit to move it forward. Successful strategy implementation requires support, discipline, motivation land hard work from all managers and employees. More importantly, it requires a suitable in organisation structure to translate ideas into concrete action plans. In spite of having all these supporting elements, strategy implementation, on most occasions proves to be a tricky job. {Creating a 'fit' between a firm's goals and its other activities proves to be a tough exercise. {Multifarious reasons could be cited in support of this statement. Strategy is

dependent on many variables—internal as well as external—and to compound the problem further there are countless, interrelated change

Steiner, Miner and Gray. "Implementation of strategies is concerned with the design and management of systems to achieve the best integration of people, structures, processes, and resources in reaching organisational purposes.

factors that could upset managerial calculations overnight. Because change factors interrelate, changing only one or two things seldom brings any significant overall organisational change. There are certainly no magic bullets to assist managers in bringing about organisational change either automatically or slowly. Given the complexities inherent in organisational change and strategy implementation, it is easy to find why efforts at both so often fail. The Mckinsey Company, a well known management consultancy firm in the United States, towards the end of 1970s was asked to find a solution to this knotty issue. The researchers Peters and Waterman found after examining America's best run companies that the problem in strategy lay in its implementation and structure was only one lever in the hands of management. The other levers were systems, staff, style, skills and superordinate goals. A strategy is usually successful when the other S's in the 7-S framework fit into or supports the strategy.

• *Strategy:* **A set of decisions and actions aimed at gaining a sustainable competitive advantage.**
• *Structure*: **The organisation chart and associated information that shows who reports to whom and how tasks are both divided and integrated.**
•*Systems:* **The flow of activities involved in the daily operation of a business, including its core processes and its support systems.**
•*Style:* **How managers collectively spend their time and attention and how they use symbolic behaviour. How management acts is more important than what management says.**
•*Staff:* **How companies develop employees and shape basic values.**
•*Shared Values:* **Commonly held beliefs, mindsets and assumptions that shape how an organisation behaves—its corporate culture.**
•*Skills:* **An organization's dominant capabilities and competencies.**



The 7-S framework highlights the importance of some interrelated and interconnected factors within the organisation and their role in successful implementation of strategy. The successful implementation of a strategy depends on the right alignment of all the seven-Ss. "When the seven-Ss are in good alignment, an organisation is poised and energized to excuse strategy to the best of its ability". Of course there is no starting point or implied order of preference in the shape of the diagram. It is also not very obvious which of the seven factors would be the driving force in changing an organisation at a point of time. The principal job of strategists then is to achieve a good fit among the Seven Ss by making necessary alterations from time to time.

Resource Allocation

While implementing strategies, the scarce resources of a firm (financial, physical, human, technological) need to be allocated carefully, according to a plan. In this regard, one can follow a top-down or a bottom-up approach. In a top-down approach resources are allocated through a process of segregation down to the operating levels. The Board of Directors, Managing Directors and other members of top management typically decide the requirements of each subunit and distribute resources accordingly. In the bottom-up approach, resources are distributed after a process of aggregation from the operating level. A mix of these two may also find favour in fairly large, multi-plant organisations.

MEANS OF RESOURCE ALLOCATION

There are several ways of allocating resources in a systematic way, namely

• *Strategic budget:* **Keeping the assumptions made before the formulation of a budget, divisional heads (SBUs) and functional managers focus their efforts on allocating funds, through an interactive exercise—taking the opinions of all those**

who matter most. The external influences and their likely impact and the internal capabilities of a firm are also kept mind in this joint budgeting effort (hence, the name strategic budget).

• *Capital budget:* **The primary purpose of a capital budget is to maximise the long term profitability of a firm while deploying resources. Various techniques like internal rate of return, pay back period, net present value are used to find where a rupee invested would earn maximum returns.**

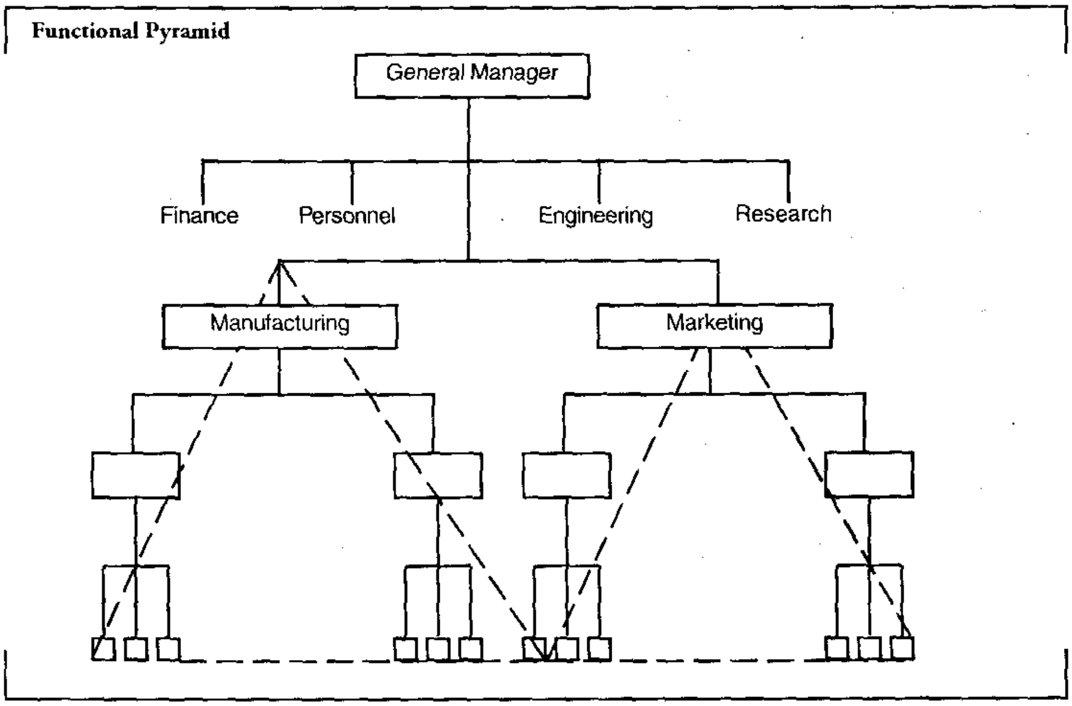
• *Performance budget:* **Here the basic purpose is to focus attention on the work to be carried out, services to be rendered rather than things to be spent for or acquired. It concentrates attention on physical aspects of achievement. Here, there is not only a work plan but also a work plan in terms of work done. It takes a systems view of activities trying to associate the inputs of the expenditure with the output of accomplishment in terms of services, benefits etc.**

• *Zero based budget:* **The key element of ZBB is future-objective orientation of past objectives. Instead of taking the last year's budgets and adjusting them for finding out the future level of activity and preparation of budget there from, ZBB forces managers to review the current, ongoing objectives and operations. ZBB is, therefore, a type of budgets that requires managers to rejustify the past objectives, projects, and budget and to set priorities for the future. The essential idea budget that differentiates ZBB from traditional budgeting is that it requires managers to justify their budget request in detail from scratch, without any reference to the level of previous appropriations. It tantamount to recalculation of all organisational activities to see which should be eliminated, funded at a reduced level, funded at the current level or increased finances must be provided.**

The Functional Structure

In the functional structure, activities are grouped together by common function. Each functional unit has a dissimilar set of duties and responsibilities. In a university, functional structure would mean a set of departments like marketing, management, business economics, finance, etc. Thus, similar and related occupational specialties are grouped together. Functional structure tries to incorporate the positive aspects of specialization.

FEATURES OF FUNCTIONAL STRUCTURE



ADVANTAGES OF FUNCTIONAL STRUCTURE

1. Clarity: **Functional design has the great advantage of clarity. Everybody has a 'home'. Everybody understands his own task. As a result, functional structures bring order and clarity to organisational activities.**

2. Economies of scale within function: **It provides economy of scale within functions. It reduces duplication and waste. For example, the total floor space shared by several products in functional organisation leading to economy of operations.**

3. Specialisation: **Each departmental manager is concerned with only one kind of work and can concentrate all his energies upon it with minimum diversion. Specialisation being built into the organisation brings about competitive advantage for the firm. By putting its limited resources into one specialized activity, 'even the small company can compete with the giant corporation on quantity, delivery and price'.**

4. Coordination: **Coordination within functions is easy. Centralized decision-making ensures unity of performance.**

5. In-depth skill development: **The functional structure also promotes skill development of employees. Employees are exposed to a range of functional activities within their departments allowing them to embody their outstanding skills in every activity of the company.**

6. Suitability: **The functional type of organisation is best for small to medium sized organisation producing one or a few products where the dominant competitive issue and goals of the organisation emphasise functional specialisation, efficiency and quality. In fact, Fayol's model for functional structure was a coal-mining company where there was only one product, demanding simple, mechanical operations. The operations were more or less standardised.**

LIMITATIONS OF FUNCTIONAL STRUCTURES

The weaknesses of the functional structure, unfortunately, are legendary as the following list indicates.

1. *Effort focus*: **Every functional manager considers his function the most important one and develops a narrow dimension of the organisation. He becomes so enamoured with his own specialty that he forgets the organization's overall goals. In his anxiety to achieve departmental goals he may try to subordinate the welfare of the other functions. 'The lust for aggrandisement on the part of each function is the price paid for the laudable desire of each manager to do a good job.' A**
2. **gain, functional specialisation may lead to extremely narrow, dull and boring jobs in the organisation with routine technologies. Functional structure also contributes to a short term perspective on the part of specialists.**

2. Poor decision-making: **No one except the man at the top sees the entire picture of business. Consequently, decisions are easily misunderstood and poorly executed. Questions like 'who is right?', who has scored better?' force organisational participants into a tug-of-war.**

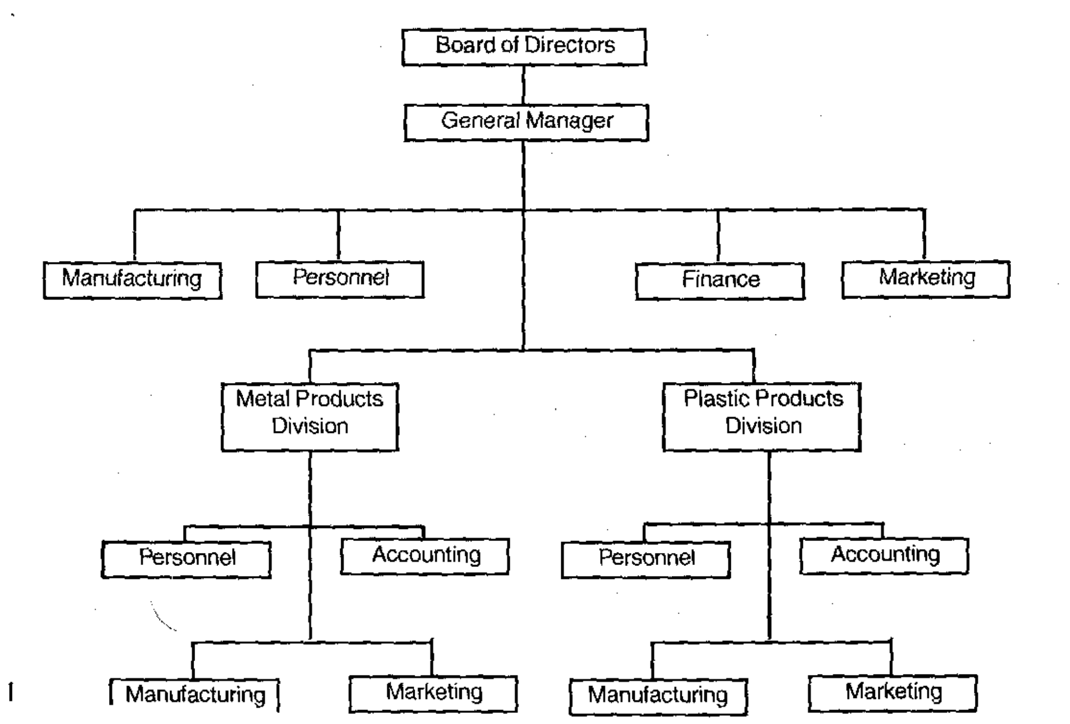
3. Sub-unit conflicts: **As the functional organisation balloons to a reasonable size, boundaries are erected between departments. The structure turns out to be a 'Berlin Wall Building'. Coordination among departments becomes a tough exercise. No one functional group is totally responsible for performance. As a result, tendencies like buckpassing, sidetracking of issues, etc., develop. Overlapping authority and divided responsibility adds to the confusion and chaos prevailing. Accountability suffers. If functional structure is employed, important projects may suffer for lack of focused coordinated attention.**

4. Managerial vacuum: **Emphasis on functional skill makes a man unfit for top management post requiring a broad perspective on the organisation's activities. Functional structure does not prepare people for tomorrow, for it has no position in which a functional head can learn and prepare to handle complexities inherent in the chief executive's position. In course of time, a chronic shortage of top management generalists may be felt.**

Divisionalisation: Product and Geographic Forms

Product Departmentation

Product or commodity departmentation is particularly adaptable to tremendously large, complex and multiproduct organisations. Product departmentation calls for division of organisation work on product basis. The large functional units in the organisation are divided into smaller.



units, each grouped in terms of product manufactured and sold. Product departmentation increases emphasis on product development, it helps in orderly and even development of products. Those products which need to be carefully nursed and skillfully developed will receive prompt and improved attention. Other products whose life is over may be discontinued. In response to changing conditions, products can be developed, added or dropped.

FEATURES OF PRODUCT STRUCTURE

Product departmentation is characterised by the following:

(a) Product departmentation focuses on results and performance than on means. The product structure is organized, basically, according to organisational outputs.
(b) Product structures involve dismemberment of the monolithic functional organisation into autonomous units. Within each of these units lies another organisational form and it's almost always of the functional type.
(c) The divisional head is responsible for performance and holds complete strategic and operating decision-making authority.
(d) The organisation is split into product divisions, each of which is responsible for its own profit or loss.
(e) In addition to providing for a central headquarters, divisionalisation helps in promoting decentralisation in a fruitful way. It facilitates a wide span of control at the top leading to a flat organisation structure. It frees the top management for the top management tasks.
(f) It is usually adopted by a multiproduct enterprise whose basic aim is to expand and diversify its products having distinct manufacturing and marketing features.

Merits

The resources of one complete administrative unit are deployed on the product. All the activities for a single project or purpose are brought under one manager. It is easy to fix accountability. Procedures and systems can be standardised, leading to better integration across different specialties. The different units like marketing, sales, engineering, finance and personnel are dedicated to the interests of one or a few related products. All this increases emphasis on product development, market exploitation, etc. Further, autonomous units enable a manager to acquire a broad range of experience, the individual responsibility and independence forces him to face challenges and run an entire company with its frustrations and satisfactions. Thus, divisionalised form serves as an excellent vehicle for training and development of general managers. Managers know what they are doing and can direct themselves toward the performance of the whole, instead of becoming prisoners of their own work, effort and skill. Divisionalised form, further, allows for a wide span of control. It focuses the vision and efforts of managers directly on business performance and results. The divisions have the responsiveness, the accountability and the benefits of specialisation and are able to process information as if they were organisations unto themselves. Unprofitable lines are not allowed to be carried on the backs of the profitable ones. Whenever necessary the autonomous units can be lopped off with minimal effect on the entire organisation.

Limitations

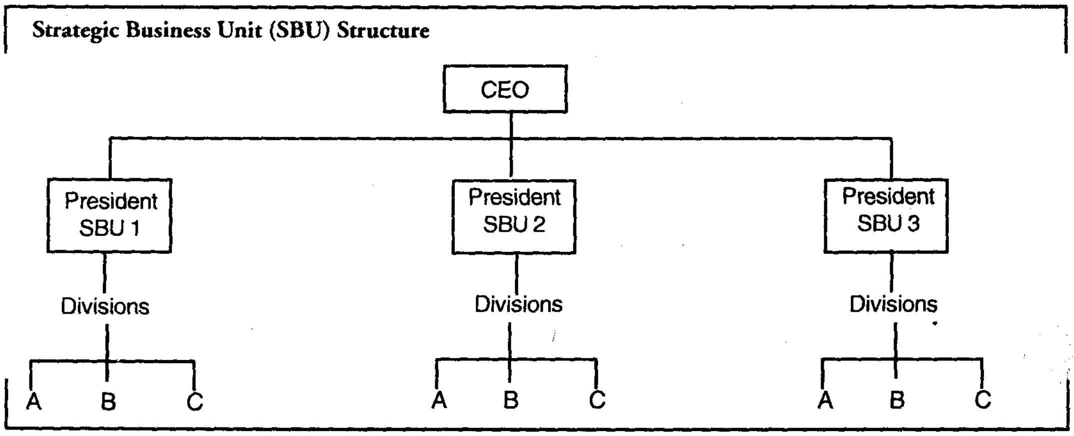
Divisionalisation tends to create additional departments and divisions leading to duplication of effort. The overhead costs of the product division multiply. There is little incentive to promote cooperation among divisions. Conflicts are created as divisions and headquarters argue about where to locate support services. Often, it is difficult to draw a clear distinction between different units and settle the priorities. A tremendous amount of managerial time and energy is wasted on adjudicating disputes between them with reference to scarce inputs, etc. The smallest adjustment between departments becomes a trial of strength or a matter of prestige and honour. The rivalry and territorial protectionism by the individual divisions can make coordination by headquarters extremely difficult. Further, the autonomy of divisional manager is exercised within limits and this breeds resentment as divisional heads feel that authority is inadequate to meet the challenges. Divisionalisation makes high human demands on self discipline, on mutual toleration, on subordinating one's self interest. High-quality managers possessing these exceptional qualities are rarely available.

GEOGRAPHIC DIVISIONALISATION

Geographic divisionalisation sets up separate regional units, each self-sufficient in manufacturing, marketing, etc., to cater to the needs of local markets. As organisations grow, they divide their activities among branches, regional offices or other facilities from the main centre of their operations. To develop an appropriate sales campaign, to exploit the latent advantages available in a region or a good customer service programme, organisations draw a territorial fence around their operations. Sometimes, the nature of the product also demands geographical fencing, for example, dairy products, candies, drinks, etc. In such cases, territorial allotment leads to intensive exploitation of markets. These days geographic departmentation is also adopted to avoid the congestion of large urban centres, as well as the problems of recruiting and utilising labour.

Strategic Business Units (SBUs)

The SBU structure is an extension of the divisional structure. In its most extreme form, the SBU operates as a separate autonomous organisation and may periodically send profits to the corporate parent. Each unit will have a clearly defined strategy, based on its capabilities and



Overall organisational needs. The SBU's autonomy will decrease if profits are lower than the parent expects. The parent may impose controls at various levels to ward off risks arising out of independent operations at a different location.

ADVANTAGES

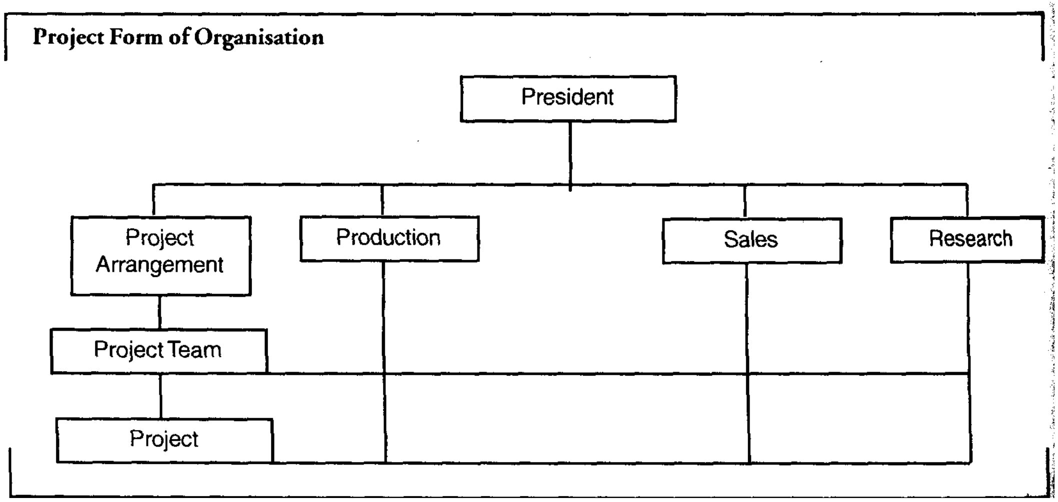
•Improves coordination between divisions with similar strategic concerns and product/ market environments.
•Tightens the strategic management and control of large, diverse business enterprises.
•Facilitates distinct and in-depth business planning at the corporate and business levels.
•Channels accountability to distinct business units.

DISADVANTAGES

•Places another layer of management between the divisions and the corporate management.
•Unhealthy completion for corporate resources.
• The role of the group vice president can be difficult to define.
• Defining the degree of autonomy for the group vice presidents and division managers can be difficult.

Project Organisation

The project structure is an effective way of focusing all of the necessary talent and organisation resources for a given period on a specific project goal. The best talent is pooled to achieve a specific and complex undertaking within time, cost and /or quality parameters. It permits large \ doses of information and activity to be managed without overloading the hierarchical structure. The organisation can continue to focus on its routine activities without interruption. It allows the main organisation to proceed normally while providing concentrated attention to a new project.



The project structure is quite similar to product organisation. Project structures usually have limited life whereas product structures are created to deal with profitable products having a long life. The project structure can also be distinguished from the matrix organisation (the terms are interchangeably employed these days). The project employees' in the matrix structure are only lent to the project managers for a specific purpose, rather than being purely responsible only to the project manager for some period of time.'

THE NATURE OF PROJECT MANAGEMENT

Project manager: **Project management calls for the appointment of a project manager who is responsible for the completion of the project. The project manager makes sure that the project does not get lost in the shuffle of organisational activities. He specifies what is to be done, when it is to be completed, and how much of the resources are required. In turn, the functional managers decide who in their units will perform the task and how it will be done. The project manager is a unifying agent and a focal point for the project activities.**

Team members: **The project involves members from various functional departments or from outside. Team members report directly to the project manager. Membership is temporary. The size of the group may change with the different phases of the work. As soon as the project is completed, team members go to another project.**

Project authority: **A project possesses a vertical as well as a horizontal dimension. It cuts across the normal organisation structure. A project manager is expected to work with various functional managers by seeking their support through persuasive bargaining. He must convince them that they should help the project by lending its manager the support needed to finish the undertaking within the time. In reality, the project managers face an 'authority gap'. They do not have authority to promote or reward their personnel. They lack complete authority over the team and possess**

what is known as 'project authority'. Further, in a project structure, the role perceptions are unclear and lack specificity. The relationship of project manager with functional heads is quite ambiguous. His authority is more fluid than in a stable organisation composed of line and staff relationships only. The project manager is expected to accomplish goals by working not only with the functional groups of the company but also with outside organisations. 'The total project organisation has no discrete boundaries; it is a complex structure that facilitates the coordination and integration of many project activities.'

Advantages

1. Project management allows maximum use of specialised knowledge which is available to all projects on an equal basis. Knowledge and experience can be transferred from one project to another.

2. Project people have a functional home when they are no longer required on a given project. In between they are provided with stimulating opportunities to participate in the decision process.

3. The project structure reduces environmental complexity. It facilitates rapid collection and processing of new information.

4. Project structures are one way of promoting and maintaining organisational flexibility. Through projects, specialisation required to achieve a goal is brought together for as long as necessary, but no longer.

Problems

1. Project structure creates feelings of insecurity and uncertainty among members. Their relationship with functional members is unclear. Dual loyalty creates anxiety and tension.

2.The project structure is an ad hoc arrangement, having a limited life. Once the project is completed, the project team is disbanded. In other words, the project manager and project staff work themselves out of a job. Some people feel lost without a permanent department with which they can identify. Security for such people is threatened when it appears that the organisation's only commitment to them is a temporary project. They fear that completion of the project will mean the end of their job. This can encourage project slowdowns.

3. The project management violates the principle of unity of command. Role prescriptions are unclear. The relationship between functional managers and the project manager is not defined properly leading to ambiguity and conflict.

4. The project structure creates insecurity and fear of unemployment as the project nears completion. Members may even create work to avoid dangers of being laid off

5. Contacts with the mainstream of organisational life are severed. Members may be bypassed when opportunities arise in their fields leading to career advancement.

6. Project manager has to perform a tightrope walk: he must build the team straightaway, obtain cooperation from other departments, battle to meet the schedule, grapple with cost figures and decide things quickly. Decisions to sacrifice time for cost, cost for quality or quality for time are common in most projects and the project manager must be able to make them without panicking.

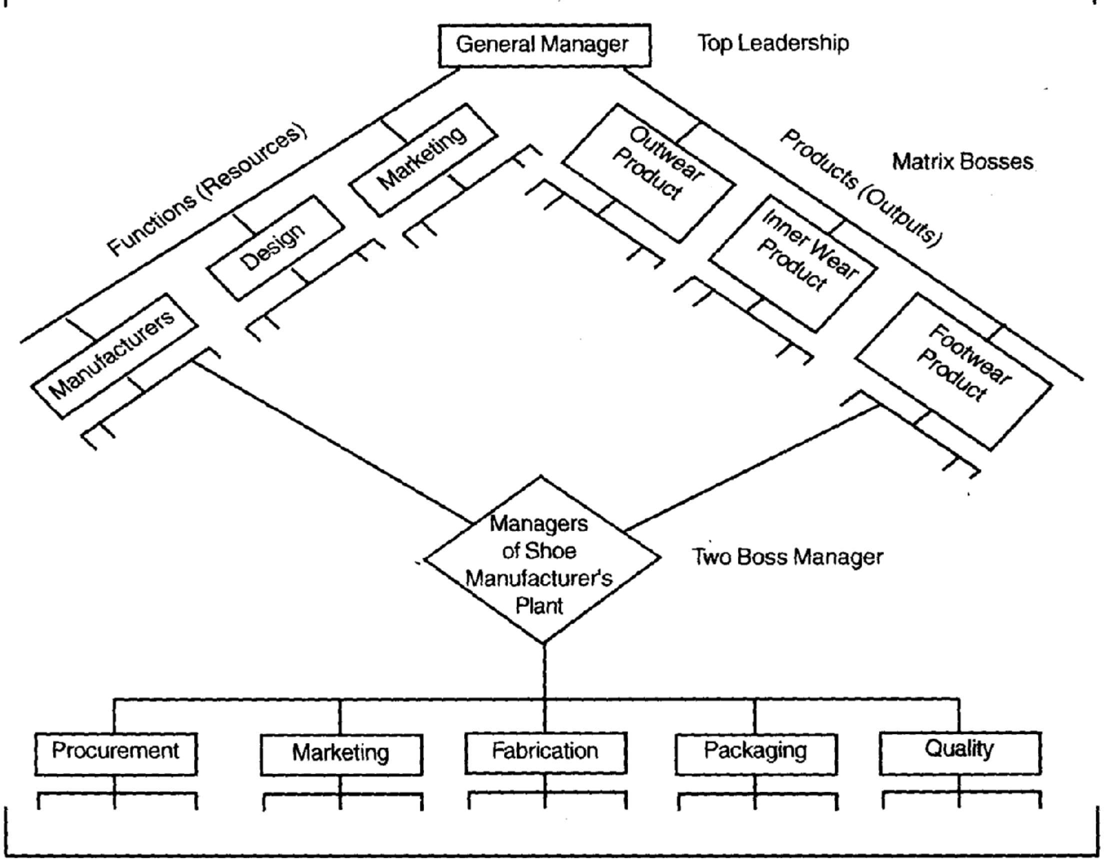
7. The project organisation creates an authority gap for project managers where responsibility outweighs authority. Most projects are not self-sufficient. They need support from various quarters. Top management can easily jeopardise the projects' success by lack of awareness. Functional cooperation may be difficult to obtain. All such factors seriously hamper the project performance.

Matrix Organisation Structure

In the matrix structure, project managers are assigned to a variety of projects—rather than a single one—whose activities cut across traditional departments. Matrix structure is simply an extension of the project management concept. The matrix breaks the unity of command concept. The classical principle 'one man one boss' is violated. The normal vertical hierarchy is 'overplayed' by a form of lateral influence. The matrix legitimates lateral chains of influence.

At any given time, a number of project managers direct the activities of a number of projects, while the functional heads allocate their resources to meet the requirements of these various projects. Project managers have authority over project employees relative to the projects' goals. Decisions such as promotion, salary increases, employee performance appraisal typically remain a part of the functional manager's responsibility. In the matrix structure, the authority of the project manager is generally greater than that given under the more traditional project management concept. There is usually a more equal division of authority between project managers and functional line managers.

Matrix Design for a Clothing Manufacturer



KEY MATRIX ROLES

Top leadership: **The top leader holds the balance of power. He must be willing to delegate decisions. He must emphasise direct contact and group problem solving at lower levels so as to promote effective communication throughout the organisation. He must also see that the power balance is maintained properly.**

Matrix bosses: **Matrix bosses have authority over project employees relative to projects' goals. They share subordinates in common with other bosses. They do not have full control over subordinates. The functional head's responsibilities pertain to functional rules and standards. The project manager acts as an integrator. He is required to achieve the specific project by balancing time, cost and performance. Matrix bosses must also be willing to face one another on disagreements. Managing highly competent professional employees demands a great deal of time, patience, and skill from project heads.**

Two-boss managers/matrix subordinates: **Matrix subordinates are often confronted with an agonising choice. He must confront senior managers on conflicting demands and reach joint decisions with them. Just like a child adjusting to conflicting demands from two parents, he is expected to move along with both managers smoothly. In such dual assignments, as indicated by Friedlander there is commonly**

a lack of jurisdictional clarity. The dual reporting relationship and assignments can cause role ambiguity, concerns for career development and weakening of ties with professional reference groups for employees.

Strengths

Many people have sung the praises of matrix organisation forms, from time to time. In fact matrix form attempts to achieve the benefits of both the functional organisation and the product organisation:

Efficiency: **A matrix form permits efficient utilisation of resources, especially manpower. Resources can be freely allocated across different products. It facilitates the efficient allocation of specialists. Specialised knowledge is available to all products/projects on an equal basis. Further, knowledge and experience can be transferred from one project to another. Each project can share the specialised resource with other units, rather than duplicating it to provide independent coverage for each. 'If a project demands half an astrophysicist, it does not need to support a whole one half occupied.' It allows the pooling and sharing to specialised resources across products in a natural, routine way.**

Flexibility: **Matrix forms encourage constant interaction among project unit and functional department members. The direct and frequent contact between different specialties in the matrix can make for better communication and more flexibility. Information permeates the organisation and reaches those people who need to take account of it. Quick decisions can be taken and the organisation can encounter the changing and uncertain environment in a better way.**

Technical excellence: **Matrix structures ensure the maintenance of high technical standards. They facilitate high quality and innovative solutions to technical problems. Frequent interactions among project unit and functional department members encourage cross fertilization of ideas. Each specialist is forced to listen, understand and respond to the views of the other.**

Balance: **Matrix structure is a way of balancing customers need for project completion and cost control with the organisations need for economic cooperation and development of technical capability for the future. 'A better balance between time, cost and performance can be obtained through the built in checks and balances and the continuous negotiations carried on between the project and functional organisations.' Further, matrix reduces bureau-pathologies. The dual lines of authority reduce tendencies of departmental managers to become so busy protecting their little worids that goals become displaced.**

Freeing top management: **Matrix structure permits decision-making at lower levels. Since many decisions are made at lower levels, the top management has more time to interact with the environment. The top management need not bury itself in endless daily routine; it can concentrate more on long range planning. Matrix**

structure facilitates a rapid managerial response to changing market and technical requirements.

Motivation: **Traditional organisation structures are based on the assumption that position level equals contribution and contribution equals rewards. In other words, the higher the individual in the organisation, the more authority he has, the greater the knowledge he possesses; the more he contributes, and the more he should be rewarded. In many organisations this holds good even today. A 60-year-old full-time professor receives a fat salary of Rs. 50,000 per month for teaching Organisation Theory to post-graduate students while a 25-year-old lecturer receives only Rs 15,000 p.m. for teaching another section of the same course in the university. The reward structure will be more frustrating in case we assume that the young scholar had just published two brilliant research papers while the older one had produced nothing in years. Fortunately in matrix structures more emphasis is placed on the authority of knowledge than the position of an individual in the organisational hierarchy. Membership of the team is based on special knowledge for given aspects of the work. As a result, lower level people can have a greater say in important decisions. The opportunity to participate in important decisions fosters higher levels of motivation and commitment.**

Development: **A matrix structure helps employees to develop and grow. It enlarges their experience and broadens their outlook. It exposes them to a wider arena full of challenges. The process of job rotation helps them to learn something of other specialties; auditors will learn about marketing, engineers develop knowledge of financial matters and accountants learn about quality control. A matrix structure gives persons of high potential an excellent means of demonstrating their capabilities and make a name for themselves (employees can acquire either functional or general management skills depending on their interests). It provides a stimulating atmosphere more in line with the democratic norms preferred by scientific and professional employees.**

Weaknesses

A matrix structure is far from being a cure-all for the embarrassments, expenses and delays that plague even the best managed organisations. They are seen as 'hurried improvisations' rather than as 'thought-through transformations'. In fact, matrix organisations carry two diametrically opposed sets of costs and benefits.

Power struggles: **Matrix fosters power struggles between product and functional managers. Unfortunately, both functional and product managers share the same set of resources leading to unhealthy competition. Each manager tries to safeguard his undisputed control over a given sphere of operations by building protective walls. For example, functional managers form coalitions to undermine the power of project specialists. Matrix intensifies defensive behaviour and hostile attitudes between managers. It is a sure recipe for personal conflict.**

Stress: **Matrix organisations can be stressful places to work in. As pointed out by R.L. Kahn, et al, stress at work arises from three factors: role conflict, role ambiguity and role overload. The use of matrix means use of dual command. Managers often end up jockeying for power and influence. "The individuals are subjected to conflicting and confusing expectations from others. The subordinate becomes a political football of the 'two superpowers' in the organisation." Members of project teams posses only de facto decision-making power. As a result, important decisions are vetoed by superiors in preference to decisions based on individual power and influence. In such ambiguous situations accountability becomes unclear. Role overload arises because of too many demands placed on an individual. An employee is expected to shoulder normal operating responsibilities as usual and also find time to participate in endless meetings and tedious discussions. Additional demands arise from these discussions leading to an increase in overall work load. Confusion exists over who reports to whom. The comfort of bureaucracy's predictability is replaced by growing insecurity and stress.**

Costs: **The matrix organisation incurs great administrative costs than a conventional hierarchy. In an attempt to cover themselves against blame, managers try to put everything in writing. The dual chain of command turns the matrix structure into another form of anarchy. It increases the management costs to double. The decision-making process is slowed down. Members have to spend far more time at meetings and discussions than doing work. More information has to be processed through written reports.**

Balance: **It is rather difficult to strike a stable balance between project and functional authority. 'The two kinds of influence are negatively correlated. The more successful lateral collaboration is achieved at a given level, the greater are the stresses up through the vertical hierarchy, with more senior managers resentful of being bypassed. And conversely, the better the vertical relationships in the line hierarchy, the more likely the lateral activities are to suffer from boundary disputes and communication blocks.'**

New Design Options

To compete effectively, managers have been experimenting with various design options, especially after the 80s. Let's briefly explain these options in the ensuring sections.

THE TEAM STRUCTURE

The term 'team structure' refers to the use of teams as a central device to coordinate work activities. The bureaucratic structure is not suitable for most of today's dynamic organisations. Employees with diverse skills and experience are required to work together (as teams) to successfully complete complex projects. As such traditional work areas have given way to more of a team effort, building and capitalising on the various skills and backgrounds that each member brings to the

team. Team members have a commitment, purpose, establish specific goals and have the leadership and structure to provide focus and direction. They are held responsible-individually and jointly-for results. They rely on each other and develop healthy interpersonal relations based on trust. They exchange information, resources, feelings and thoughts freely and openly. The point is that teams do go beyond traditional formal work groups by having a collective synergistic (the whole is greater than the sum of its parts) effect. The basis of these work teams, then, is driven by the tasks at hand. Involving employees gives them an opportunity to focus on the job goals. The freedom that they enjoy empowers them to develop the means to achieve the desired ends.

THE VIRTUAL ORGANISATION

The virtual organisation is a small core organisation that outsources major business functions. Dell Computer, for instance, owns no plants and merely assembles computers from outsourced parts. The core functions generally reflect the strengths of the virtual organisation-it can be designing, marketing, distribution, etc. The core group consists of a small group of executives overseeing activities that are undertaken in-house and coordinating relationships with outside organisations that carry out work on behalf of the virtual organisation. Most of the time of executives is spent in developing and coordinating links with outside suppliers through computer networks. The major advantages of the virtual structure are its flexibility. For instance it allows someone with an innovative idea and little money—like Dell Computer—to successfully compete with giant outfits such as IBM.

THE BOUNDARYLESS ORGANISATIONS

It is an organisation that seeks to eliminate the chain of command, have limitless spans of control, and replace departments with empowered teams. Let's explain these briefly. In a boundaryless organisation, the vertical lines of hierarchy are eliminated. The pyramidal shape is decimated and a flat organisation structure takes its place. Functional departments are replaced by cross-functional teams. A cross functional team consists of employees from the same hierarchical level but from different work areas, who come together to accomplish a task. The attempt is to turn every employee into a kind of a generalist by putting him in various teams to improve his skills, experience and ability to get along with others. To this end, the organisation rotates people into and out of different functional areas. Lateral transfers are also routinely carried out.

Behavioral Issues in Strategy Implementation

Influence Tactics

Apart from a suitable structure, commitment from leaders at the top is important to successfully implementing and achieving objectives. To this end, they must establish the firm's direction -by developing and communicating a vision of the future — and

to motivate and inspire organisation members to move in that direction. Leadership success is often linked to the ability of a leader to exercise the right kind of influence at the right time.

Power

Leaders often use their power to influence others and implement strategy. Formal authority that comes through the leader's position in the organisation — say CEO — may not always help in influencing others. Two reasons could be stated in support of this contention.

•Not everyone in today's organisations passively accepts and enthusiastically implements multi-myriad rules, orders, instructions coming from the top. Subordinates may resist orders, subtly ignore them, blatantly question them, or even quit.

•The CEO cannot influence some individuals — such as customers, government officials, competing managers in rival firms, board of directors etc. — through his influence tactics (because he has not formal authority over them). The leader, therefore, needs to exercise something more than formal authority — called as power — to secure compliance and cooperation from others. Here, power may be defined as the potential ability to influence the behaviour of others or represent the resources with which a leader effects changes in employee behaviour (and thereby implements the strategic game plan).

•Expertise: **Power resulting from a leader's special knowledge or skill regarding the tasks carried out by followers is referred to as expert power. When the leader is a true expert, subordinates go along with recommendations because of his or her superior knowledge. Three conditions are essential to maintain expert power. First, since expert power is based on knowledge and skill, the experts must continue to be perceived as competent; those who become obsolete lose their expert power. The second requirement is to make certain that the organisation continues to need the expert's knowledge and skill. The expert power of many accountants and lawyers is created by complex laws and tax regulations. If these laws were repealed, the expertise of accountants and lawyers would suddenly become unnecessary. Finally, individuals who are exerting expert power must prevent other experts from replacing them. In short, expert power can be maintained only if there is a critical need for the skills and knowledge of the expert that cannot be conveniently obtained elsewhere.**

Charisma: **It refers to a leader's ability to influence others through his personal magnetism, enthusiasm and strongly held convictions. Often, leaders are able to communicate these convictions and their vision for the future through a dramatic persuasive manner of speaking. Dr Martin Luther King's famous "I have a Dream" speech galvanised a generation to support the Civil Rights Movement in the United States. As Yukl remarked, charismatic leaders (Mahatma Gandhi, Abraham**

Lincoln, Nehru etc.) attempt to create an image of competence and success. They are often hailed as heroes and role models everywhere. The more that followers admire their leaders and identify with them the more likely they are to accept the leaders' values and beliefs. This acceptance helps charismatic leaders to exercise great influence over their followers' behaviours (Yukl, 1989). If they set high standards for themselves, subordinates follow their steps religiously. Such leaders, as researchers pointed out, are most likely to be effective during periods of organisational crisis or transition. Stressful situations are more likely to encourage employees to repose faith in a leader who seems to steer the ship out of trouble. If the leader's strategy works and organisational performance improves, his power base too will expand dramatically.

Reward Power: **Top managers can get others to implement the organisation's strategies by making changes in formal reward systems. Those who carry out the strategy will receive pay raises, bonuses, promotions etc. Those who support the strategic initiatives and remain loyal to the leader will assume responsible positions and get away with plum postings. If the leader has a number of rewards under his control, which are valued and desired by subordinates strongly, he will be able to secure cooperation and compliance from subordinates easily.**

• *Information Power:* **A manager's access to important information and control over its distribution, often, help him influence the behaviour of subordinates. According to Mintzberg, the CEO is generally the best informed member of an organisation. He is able to oversee everything from the top and he has excellent external contacts to secure as much information as possible. He may not, of course, know everything, but he usually knows more than anyone else. If the CEO's information is reliable and complete, no one will be able to question his decisions which are based on a lot of information and knowledge.**

• *Exchange:* **The use of exchange as a power base is quite common in corporate circles. The leader helps others when they are at the receiving end. Others, in turn, will feel obliged to carry out things the leader would request later. Such reciprocal relationships flourish when the leaders step down from their ivory tower, join the mainstream and get along with others — shedding a portion of their superego, status and power. Sometimes connections or links with people inside or outside the work environment by the manager also bring some power to him. A manager who has got many valuable, respectable and useful links possesses this type of power; a subordinate who has good public relations and rapport with officials outside the organisation, or elsewhere can also have connection power. A manager or subordinate can influence others who acknowledge the connections they have.**

• *Legitimate Power:* **This power is the prerogative of a manager by virtue of his position in the organisation. Power is inherent in the position and authority a manager has. In our society people accept the right of top managers to direct the organisation. They are conditioned to accept the authority of superiors in higher positions. Moreover, managers have control over the distribution of resources and**

this control earns power for them over others. The quantum of legitimate power a manager exercises depends on the nature of his task, the organisation and the willingness of the manager to exercise power.

•*Coercive Power:* **Managers who have "reward power" also have "coercive power". This is generally exercised by the manager against unproductive or disturbing elements and to restore discipline in the task environment. Coercive power is associated with the ability to assign distasteful tasks, withhold promotions, harass subordinates by not rewarding performance suitably, etc. Managers threaten the employees, when exercising this kind of coercive power, with job-related punishments such as dismissal, demotion, reprimand, transfer, and discourage low performance etc. Coercive power, if used properly, can lead to strong leadership. If punishments are inflicted indiscriminately, several dysfunctional consequences will automatically follow viz., damaging leader-member relations, frustration of the punished people, irreparable damage to the organisational set up etc. The punished person may be totally frustrated so that he retaliates by aggressive and violent responses which may prove to be very costly, for the organisation in the end.**

STRATEGIES AND TACTICS TO ACQUIRE POWER

Various political strategies are pursued by individuals with a view to enhance their image and gain respect from others. Successful political behaviour involves keeping people happy, cultivating contacts and wheeling and dealing. Some commonly employed political strategies are given below (Dubrin):

• *Forming Alliances:* **Maintain alliances with powerful people, especially those who are close to the most powerful person in the organisation.**

• *Selective use of Information:* **Control the flow of important pieces of information to suit personal ends. Includes withholding unfavourable information from superiors, keeping useful information from competitors, interpreting information in a way that is favourable to oneself.**

• *Scapegoating:* **Ensuring that someone else is blamed for a failure. Skilled politicians make sure that they never blamed when something goes wrong and are given get credit when something goes right.**

• *Image Building:* **Skilled politicians know the importance of being viewed positively and go out of their way to create positive images of themselves. Includes dressing appropriately, highlighting one's successes, being enthusiastic about the organisation, adhering to group norms etc. Also they always try to present a conservative image of themselves. It can be disadvantageous to be seen as too radical an agent of change.**

•*Networking:* **Insuring that one has many friends in positions of influence. Skilful politicians extend favours to cultivate rewarding relationships with others. They**

praise people and avoid critical, negative remarks about others. They are generally very cordial in their interpersonal dealings.

•*Compromise:* **Giving in on an important issue in order to gain an ally who will be on your side when an issue of importance to you arises at a later date.**

• *Rule Manipulation:* **Refusing an opponent's request on the grounds that it is against company policy but granting an identical request from an ally on grounds that it is a 'special occasion.'**

• *Fabianism:* **Avoiding decisive engagement. This means going slow and easy — an evolutionary rather than a revolutionary approach to change. By not 'ruffling feathers', the power seeker can slowly but steadily become entrenched and gain the cooperation and trust of others.**

• *One Step at a Time:* **Skilful politicians take one step at a time instead of pushing the whole project or reorganisation attempt at a time. One small step can be a foothold that the power seeker can use as a basis to get other, more major .things accomplished.**

• *Persuasion:* **Another tactic is persuasion which relies on both emotion and logic. An operations manager wanting to construct a new plant on a certain site might persuade others to support his goal on grounds that are objective and logical (land is cheap, tax concessions are great) as well as subjective and personal.**

Leadership Style and Culture Change

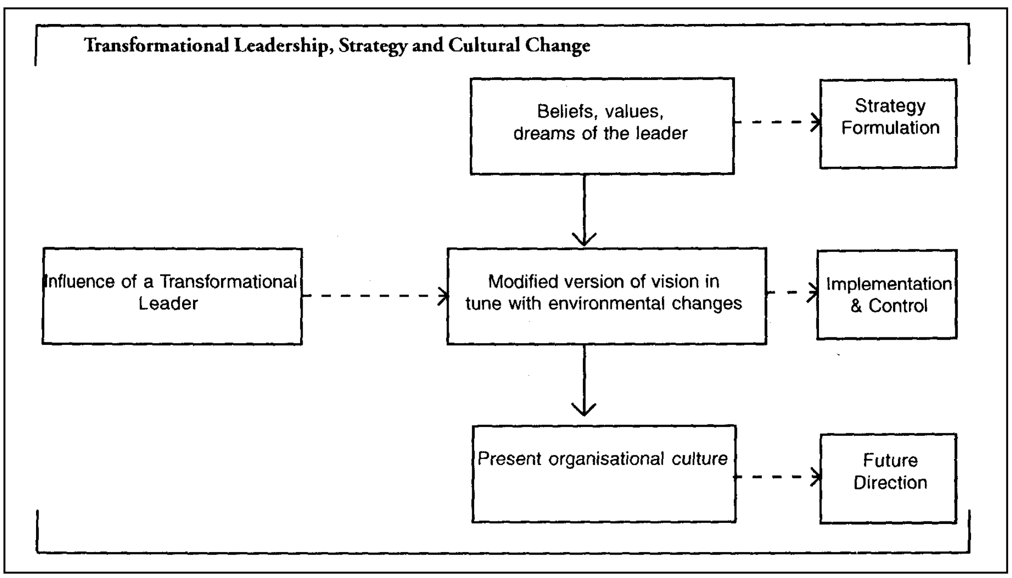
To bring about change and to implement strategies successfully, organisations are now pinning hopes on the unique capabilities of transformational leaders. Le lacocca is often used as an example of a successful transformational leader because of his successful efforts in transforming Chrysler Corporation from a floundering company into a much more successful company that could avoid bankruptcy. The word, 'transformational leadership' is used to signify leadership that goes beyond ordinary expectations by transmitting a sense of mission, stimulating learning experiences and inspiring new ways of thinking. In 1914 Henry Ford, for example, offered unusually high wages for workers @$5 a day in exchange for their accepting tight controls to be imposed on them (strict discipline, no idle time etc.).

WHO ARE TRANSFORMATIONAL LEADERS?

Transformational leaders are distinguished (from charismatic leaders) by their unique ability to bring about innovation and change. They create significant change in both followers and the organisation. They have the special capabilities required to lead changes in the organisation's mission, strategy, structure and culture, as well as to promote innovation in products and technologies. They generally do not put emphasis on tangible rules and incentives alone while motivating followers. They focus on intangible qualities such as vision, shared values and ideas to build relationships, give larger meaning to diverse activities and find common ground to enlist followers in the change process.

(R L Daft and R H Lengel, Fusion leadership, Barren-Koehler San Francisco,

Henry Ford wanted a simple, inexpensive car, Model T, to be within the reach of ordinary citizens. Standardised production, focus on a single model, massive scale, reduced prices enabled Ford to realise his dream sooner than expected. By 1913, the selling price dropped to $ 500; it fell to $ 390 by 1915 and sold for only $260 by 1925. The time to produce the car had declined from 12 '/z worker-hours in 1912 to IVz worker-hours in 1914! (B M Bass). To bring about change within an organisation, leaders must benchmark their performance against their competitors (not just against last year's quarter's performance) and try to switch gears when the organisation is successful (certainly not when it is in trouble as stated by Drucker) by focussing attention on measures such as new product innovations, customer satisfaction, product quality as compared with competitors. Once the need for change is recognised, the leader must inspire organisational members with a Vision' of what the organisation can become — by inviting followers to extend a helping hand, stretching their abilities fully (A E Pearson). He must lead from the front, setting a glorious example of dedication, sacrifice and single-minded devotion to the vision mapped out by him. It is also important that this vision be repeated over and over and not be allowed to fade away (Bennis & Nanus). He must also try to ensure that the changes occur as desired and suitable feedback mechanisms be incorporated to see that the desired changes in organisational culture actually take place.



The culture of an organisation is the set of values, beliefs, behaviours that helps its members understand what the organisation stands for, how it does things and what it considers important. Culture is a kind of social glue that binds people together through shared symbols, language, stories, and practices.

Elements of Strong Corporate Cultures

- **A widely shared philosophy. This philosophy is not an abstract notion of the future but a real understanding of what the firm stands for, often embodied in slogans.**
- **A concern for Individuals. This concern often places individual concerns over rules, policies, procedures and adherence to job duties.**
- **A recognition of heroes. Heroes are individuals whose actions illustrate the shared philosophy and concerns of the company**
- **A belief in ritual and ceremony. Management understands that rituals and ceremonies are real and important to members and to building a common identity.**
- **A well-understood sense of the informal rules and expectations. Employees understand what is expected of them.**
- **A belief that what employees do is important to others. Networking, to share**

To be successful, the firm's culture must be appropriate to and supportive of that firm. The culture must invariably have certain values that can help the firm adapt to environmental change. Changes in strategy should be accompanied by corresponding alterations in the firm's culture. For example, mere formation of new goals and plans do not transform conservative organisations instantaneously unless there are significant changes in the thinking of members and organisational practices. Leaders play a great role in maintaining or changing the culture and setting a new road map for the firm. Leaders, generally, use several mechanisms to help develop and reinforce a desired corporate culture.

Values and Culture

A value is something that has worth and importance to an individual. As such values help shape human behaviour. Parents, friends, teachers and external reference groups can all influence individual values. Indeed, a person's values develop as a product of learning and experience in the cultural setting in which he or she lives. As learning and experiences vary from one person to the next, value differences are the inevitable result.

As a system of shared values, the corporate culture reflects a climate within which people value the same things and apply these to benefit the corporation as a whole. One example is the dominant value of customer service at TELCO. This value helps keep everyone — from top management down to persons on the factory floor — pulling in the same direction. Other examples are found in corporate slogans or creeds such as General Electric: "Progress is our most important product'; Delta Airlines, "The Family Feeling"; Sears, "Quality at a good price"; Bata India Ltd. "Customer is the king". The strength of such slogans in communicating value lies in the basic premise that values can influence behaviour. To the extent that employees understand and share values such as those reflected in the slogans, their behaviour

should be more uniform and consistent. Performance of individuals, groups and the organisation as a whole should benefit as a result. Research shows that managers who sense a compatibility and experience feelings of success in their lives show high regard for organisational objectives and significant stakeholders and have a healthy assessment of the values and ethics of their colleagues, subordinates and bosses.

The concept of "corporate culture" and its companion notion of shared values is important in the field of strategic management. Researchers recognise that organisations develop different cultures, that these cultures have different performance implications and that they can be changed. Strong cultures that fit the needs and challenges of the situation are "in", whereas weak or poorly matched cultures are "out". The case of AT&T, the telecommunications giant, is a good example. For many years the company operated as a regulated monopoly and created what many observers felt was the best phone system in the world. All this was achieved in a highly structured corporate culture where "universal service at reasonable cost" was the predominant value. Things are different for AT&T today. The culture is changing, albeit slowly, as the company tries to instill in itself the new sense of innovation and competition that is necessary to prosper in a deregulated environment (like what is happening in public sector banks, insurance firms and oil companies after deregulation).

VALUES AND BEHAVIOUR FORMATION

People are not born with values; rather they acquire and develop them early in life. Parents, teachers, relatives, friends and others influence an individuals' values. Values such as — stealing is bad, 'honestly is the best policy' respect your elders and teachers', 'be kind to people' are taught and reinforced in schools, religious institutions and social groups. Over the years these values become relatively stable and enduring. As we grow in years, we often seek environments that are compatible with the values we learned as children. For example, values help find out what companies we are attracted to and how long we stay therein. They also influence how motivated we are at work; people who share same values as the organisation are more committed to the organisation than those who do not.

IMPACT

Whenever people make decisions or talk about what constitutes appropriate behaviour at work, we can easily see the impact of values or even conflicts between different values. For example, consider the question of laying off employees. Managers with dominant economic values would be less hesitant to lay them off quickly than would managers with high social values.

Ethics and Strategy

Ethics are contemporary standards and a principles or conducts that govern the actions and behaviour of individuals within the organisation. They provide a basis for determining what is right or wrong in terms of a given situation.

If we accept that all organisations pose ethical problems for managers then what constitutes ethical behaviour? There is a great tendency to oversimplify the matters of ethical problems in business organisations. Frequently, we visualise decisions as involving simple choices between right and wrong, black and white. However, drawing the curtain between ethical and unethical practices is not an easy matter. In a controversial Harvard Business Review article, Albert Z Carr argued that there has always been a kind of double standard applied to the morality of business. Carr believes that business and poker should be played by different rules -than those which apply to polite society. He argues that be should not expect to approach a used car salesman with an open straightforward statement of what we will pay any more than we expect a poker player to tell us what cards he has. When companies begin negotiations with union representatives what would happen if all cards were laid face up on the table? A manager of corporate planning from India, for example, may be acquiring a non-India company with two sets of books to evade income tax — a standard practice for the country. Do we (i) declare income and pay taxes (ii) take the black money out the country (illegally) or (iii) continue tax evasion? Another type of dilemma confronts the manager who must decide whether to lay off an older, less efficient employee for a younger employee with greater skill and vigour. Again how to resolve the conflicting interests while deciding on a particular issue? Can a businessman make decision in favour of his employee, the government, society at large, or some other persons when he would personally profit more by making a decision contrary to that interest? Thus, decisions with ethical overtones are often complex. Often there are conflicts in values and the manager perceives different obligations which seem to conflict in their implications.

Factors influencing Business Ethics

At least five factors significantly influence decisions made by managers involving ethical issues.

1. Legislation: **Laws are generally passed as a result of low ethical Standards or the failure 10 recognizes social responsibilities. They are the result of social pressures. A practice can be made illegal if society views ir as being unethical. For example, if contributions to political parties by corporations are viewed as being excessive and unethical, the practice can be banned.**

2. Government rules and regulations: **Government regulations regarding working conditions, product safety, statutory warnings (on cigarettes and other harmful products), etc., are all supported by laws. These provide guidelines to managers in determining what are acceptable standards and practices.**

3. Industry and for company ethical codes of behaviour: **Many times specific guidelines are provided to managers by the company's' ethical code of behaviour. One important question in such instances is whether individuals within organisations are really governed by the code of ethics or give lip-service to the guidelines.**

4. Social pressures: **Social forces and pressures have considerable influence on ethics in business. Society, in the recent past, has demonstrated how a special status can be conferred on backward castes; boycotted products and complained and threatened action to prevent the construction of nuclear power plants. Such actions by different groups in society may, in fact, force management to alter certain decisions by taking a broader view of the environment and the needs of society.**

5. Conflicts between personal values and the needs of the firm: **Many times, managers may be forced to compromise their personal ethical and moral values in order to achieve organisational goals. Everyday ethical decisions are usually made between the lesser of the two evils rather than obvious right and wrong.**

UNETHICAL BEHAVIOUR AND CODE OF CONDUCT

The manager's real world of deciding shades of difference is far more challenging and complex than the textbook ethical problem situations. In addition to the above factors, there are other complicating factors in making choices between right and wrong. Often it may be difficult for the manager to free himself from bias and prejudice and look at issues objectively. In spite of good intentions, he becomes involved in the situation and becomes identified with certain positions or points of view. It becomes difficult to step back and to take a detached point of view in examining the issue from an ethical standpoint. In spite of these problems, certain examples can be cited to answer the question as to what constitutes unethical behaviour:

- **Padding expense accounts to obtain reimbursement for questionable business expenses**
- **Revealing confidential information or trade secrets**
- **Giving or accepting 'gifts' or 'favours'**
- **Using company property and/or materials for personal use**
- **Leaving the job without observing job contract**
- **Being severely critical of competitors**
- **Attempting to corner opportunities by bribing public officials**
- **Price discrimination, unfair pricing, price collusion**
- **Unfair competitive practices, pirating employees or ideas, etc.**
- **Cheating customers, overselling, unfair credit practices**
- **Dishonesty in making or fulfilling contracts**
- **Code of Ethics" and Answer to Ethical Problems in Business**

"One of the most far-reaching company activities designed to improve business ethics is the adoption of code of ethics and/or standards of practice. Although it is

true that codes range from arbitrary, legalistic documents to vague generalities written in such misty, grandiose terms that they become meaningless, the potential contributions from codes make them worthy of consideration by progressive organisations." R W Austin suggested a simple positive code of conduct for business management thus:

- **The professional manager affirms that he will place the interest of his company before his own private interests.**
- **He will place his duty to society above his duty to his company and above his private interest.**
- **He has a duty to reveal the facts in any situation where his private interests are involved with those of his company, or where the interests of his company are involved with those of society.**
- **He must subscribe wholeheartedly to the belief that when business managers follow this code of conduct, the profit motive is the best incentive of all for the development of a dynamic economy.**

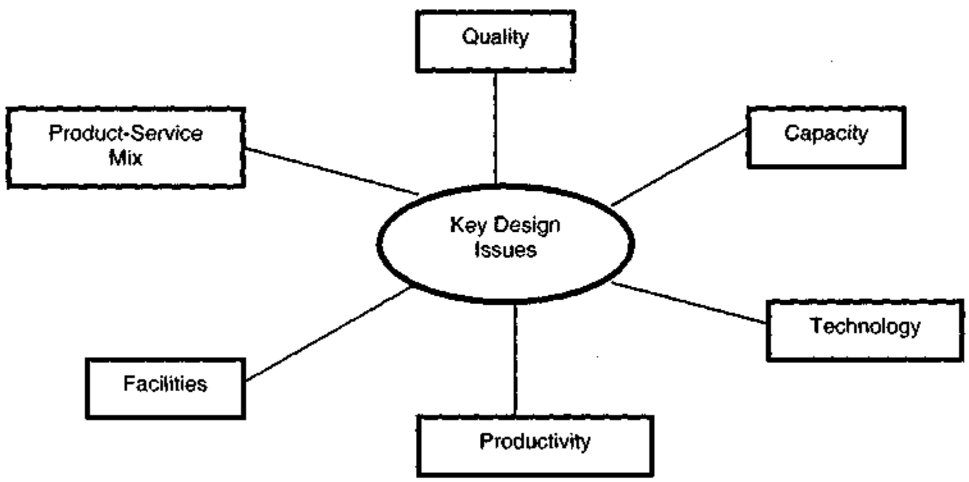
FORMULATING OPERATIONS STRATEGY

The operations function plays a very important role in implementing strategy. It establishes the level of quality as a product is manufactured or as a service is offered. For example, the decision whether to stress high quality regardless of cost, lowest possible cost regardless of quality or some combination of the two, has numerous important implications. A highest possible quality strategy dictates state of the art technology and strict adherence to design and material requirements. A combination strategy may require lower grade technology and less concern about product design and materials specifications. If the firm decides to upgrade the quality of its products but lacks production capabilities and does not have the resources to replace its technology, it becomes difficult to reach the new standards. Therefore, just as strategy affects operations management, so too does operations management affect strategy. Operations decisions must always be consistent with corporate strategy so that the full potential of operations, resources can be harnessed in pursuit of the company's goals.

Operations strategy is the recognition of the important role of operations in organisational success and the involvement of operations managers in the organisations' strategic planning. According to WheelWright and Hayes there are four stages in the evolution of operations strategy. At stage 1, business strategy is set without taking the capability of operations into account. Operations management is regarded as an essentially neutral function and is viewed as incapable of positively impacting the organisation's competitive success. The primary focus, then, is on labour costs and operational efficiency — trying to minimise any negative impact that internal operations may have on the organisation. At stage 2, the operations department sets goals according to industry practice. The operations attempt to be current with regard to operations management techniques and views capital investment in plant and equipment, quality control and inventory management as

ways to be competitive. At stage 3, operations strategy is in line with company strategy and the operations department will find new ways to enhance competitiveness. Operations managers are involved in implementing and supporting strategy but not in formulating it. At stage 4, operations managers adopt new technologies on their own with a view to deliver goods and services of highest quality. Here operations strategy is regarded as a genuine competitive weapon. Managers try to anticipate potential technological advances that could impact operations and to gain the necessary internal expertise well before the implications are obvious. At this stage organisations try to use innovation as a means of making strategic jumps ahead of the competition.

In order to carry out operations strategy successfully, it is necessary to design and implement well-conceived operating systems. The primary operating systems that are used in operations management are discussed below:



PRODUCT-SERVICE MIX (WHAT TO PRODUCE)

Initially every firm should decide about the product-service mix (how many and what kinds to offer), keeping the following objectives in mind.

- *Productivity:* **It is the degree to which a product or service can actually be manufactured for the customer within the firm's operational capacity.**

- *Cost efficiency:* **It is the sum total of all materials, labour and overhead expenses associated with a product or service. Striving for simplicity and few parts keeps product and service designs within reasonable limits. A company that stresses cost efficiency will keep its operating costs low relative to those other, similar companies.**

- *Quality:* **It is the excellence of the product or service — the serviceability and value that customers gain by purchasing the products. A company that stresses quality will consistently try to provide a level of quality that is significantly superior to that of its competitors, even if it has to pay something extra to do so.**

• *Reliability:* **It is the degree to which the customer can count on the product or service to fulfill its intended function. The product should work as designed for a reasonable length of time.**

• *Flexibility*: **It is the degree to which a company can respond to changes in product design, product mix or product volume.**

In actual practice, a company cannot simultaneously have a product that is lowest in cost, highest in quality and instantly available in every corner of the country. Depending on factors such as operational capabilities, availability of resources and technical skills, each company must earmark its niche areas and design products so as to maximise return on investment.

Currently, a growing number of companies are using design for manufacturability and assembly (DFMA) to avoid problems. The focus of DFMA is simplicity — making the product easy and inexpensive to manufacture. DFMA often demands restructuring operations, creating teams of experienced designers, manufacturers and assemblers to work together.

CAPACITY PLANNING (HOW MANY TO PRODUCE)

Capacity planning is a process of forecasting demand and then deciding what resources will be required to meet that demand. Demand forecasting is the process of estimating the future demand that can be expected for the organisation's various offerings under an array of different market conditions. According to Mcclain and Thomas, capacity planning involves the following sequential steps.

•*Predict future demands and competitive reactions:* **The Company must estimate customer reaction to the products offered by it and also take care of potential countermoves by competitors.**

•*Translate above estimates into capacity needs:* **Based on forecasts, management must decide the amount of each offering that can be manufactured keeping input limitations such as plant, equipment, human resources etc. in mind.**

• *Create alternate capacity plans:* **Depending on what the market might absorb and what the organisation can produce, management should come out with alternate capacity plans for various products/services that are offered to customers.**

•*Evaluate each alternative:* **As the firm adds to the variety of its offerings (or volume), costs tend to go up. Such additional costs should be carefully evaluated in terms of expected payoffs, identifying the opportunities and threats associated with each choice.**

•*Select and execute a particular capacity plan:* **The capacity plan that best serves corporate objectives and strategies should be picked up and implemented.**

TECHNOLOGY AND FACILITIES PLANNING (HOW TO PRODUCE)

Process selection and facilities planning (which determines how the product or service will be produced) involves several important decisions (Stoner).

• *Major technological choice:* **The operations manager, at this stage, should pay attention to questions such as, — does technology exist to produce the products? Are there competing technologies among which to choose? Should the company import technology through collaborations and joint ventures or develop it indigenously? etc.**

• *Process planning:* **Here the operations manager is concerned with evaluating transformation processes for costs and for consistency with desired product and capacity plans. Basically there are two options available: repetitive processing and batch processing. Repetitive processing moves the flow of materials through a continuous transformational process. Batch processing calls for work to be done on materials in batches or separate orders. Once the basic transformational process is identified, the decision then shifts to the physical arrangements to be made within the process.**

• *Facilities Location Planning*: **This deals with the selection of the preferred location for a production or service facility. Every firm has its own criteria for choosing a particular site for locating a new facility. In addition to cost considerations associated with purchasing and building a new site, many other factors must be evaluated including the supply of skilled labour, access to raw materials and supplies, access to transportation and communications systems, governmental incentives etc.**

FACTORIES OF THE FUTURE

• *Flexible Manufacturing Systems (FMS):* **The use of automated production lines that can be adapted to produce more than one kind of product is called a flexible manufacturing system. The machinery uses computers to carry out functions such as loading, unloading, storing parts, changing tools and machining. The computer can instruct the machines to change everything when a new product must be produced, depending on customer choices.**

• *CAM:* **Computer Aided Manufacturing is the heart and soul of flexible manufacturing. It uses computers to direct the manufacturing process.**

• *CAD:* **Computer Aided Design uses special software to instruct a computer to draw specified configurations including dimensions and details on a display screen. This method reduces the time spent in the design process and simplifies the exploration of alternative design.**

Typically, the CAM system is linked to CAD so that the product specifications drive the manufacturing specifications. The demand for CAM has grown rapidly because flexibility is required to meet the ever-changing competition and customer demand. FMS, CAD and

• *Facility Layout Planning:* **It establishes the manner in which workspace is to be arrange for each operation. For virtually any type of operation, management must determine in most effective way to layout the physical facilities. Among the traditional approaches product layouts, process layouts and fixed-position layouts.**

•*A Product Layout* **is one in which the components are arranged according to the progressive steps by which the product is made. Conceptually, the flow is an unbroken line from i material input to finished goods. This type of layout is exemplified in automobile assembly food processing and furniture manufacture.**

• *A Process Layout* **(or functional layout) is one in which the components are group according to the general function they perform, without regard to any particular product Custom job shops, department stores and hospitals are generally arranged in this manna**

• *A Fixed-position Layout* **is one in which the product by virtue of its bulk and weight,' remains at one location. The equipments required for product manufacture are moved I the product rather than vice versa. Sound stages on a movie set, aircraft assembly and shipyards typify this mode of layout.**

• *Purchasing Management:* **Purchasing management is concerned with buying the material and resources needed to create products and services. The purchasing manager, often I to perform a tight-rope walk while taking purchasing decisions. Buying too much up capital and increases storage costs. Buying too little might lead to shortages and hig ordering costs. While buying materials and supplies, the purchasing manager must; make sure that the quality of what is purchased meets the firm's requirements, that i supplier is reliable and that the best financial terms are negotiated.**

Purchasing needs are generally identified through Materials Requirement Planning (MRP). MRP is the process of creating schedules that identify specific parts and materials required to produce an item, the exact quantities of each needed to enhance the organisational production process and the dates when orders for these quantities should be released to suppliers and be received for best timing within the production cycle. The basic input data for MRP come from three main sources (1) a master production schedule based on orders from consumers, sales forecasts or product demand or plant capacity (ii) a bill of material file that considers product design changes in determining the types and quantities of materials required within the production process and (iii) an inventory file that shows die types and quantities of materials presently on hand. The computer, thereafter, generates output reports

that show what materials should be ordered or cancelled as well as what materials should be expedited or de-expedited.

Inventory Management: **It deals with the proper management of the organisation's inventory comprising of raw materials, work-in-process, financial goods and in-transit goods. Raw materials inventory includes the basic inputs to the organisation's production process. Work-in-process inventory includes the materials moving through the stages of the production process that are not completed products. Finished goods inventory represents the completed but unsold goods. In-transit inventories are controlled by the transportation and distribution systems. Inventory management has become an important issue for various reasons. Money not locked up in inventory can be used in other productive ventures. In high-tech firms, products lose value quickly as they are replaced by more innovative or lower cost models. Hence, keeping inventory low becomes a critical factor for achieving success there. For competitive pricing inventories have to be managed efficiently. Two important techniques of inventory management, discussed below, have gained popularity, in addition to the materials requirement planning technique discussed previously.**

(a) Economic Order Quality (EOQ) **is designed to minimise ordering and holding costs for inventory items. Ordering costs (hostage, receiving, inspection etc.) are the costs of purchasing and receiving the inventory. Holding (or carrying) costs are the costs of storing, insuring and maintaining inventory.**

(b) Just in time (JIT) Inventory Systems **are primarily designed to reduce the organisation's inventory to zero. The JIT technique reduces inventories to a minimum by arranging for them to be delivered to the production facility 'Just in time' to be used. It is based on the philosophy (originally developed by the Toyota Motor company of Japan, called as Kanban, referring to purchasing of raw materials by using a special card ordering form) that products should be manufactured when customers need them and in the quantities that customers need them in order to minimise levels of raw materials and finished goods inventories kept on hand. JIT stresses maintaining operations by employing only the resources that are absolutely necessary to meet customer demand. This technique works best in companies that produce relatively standardised products having consistent demand. Such companies can comfortably order materials from suppliers and assemble products in several small continuous batches. The result is a smooth, consistent flow of purchased materials and assembled products with very little inventory build-up.**

• *Quality Management:* **Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. According to D A Garvin, quality has several different attributes.**

Quality is a major consideration for all managers today. It is important because it affects competition, productivity and costs. Good quality products enable a

company to run ahead of its competitors. 'Zero defect products' mean fewer returns from customers. As the number of defects goes down, reworking costs fall. Quality consciousness helps employees to act responsibly and thereby cut down inspection costs as well. The organisation, thus, is able to produce more units with fewer resources — implying improved productivity. The Japanese have shown the industrial world that quality lowers costs. Poor quality results in higher returns from customers, high warranty costs and lawsuits from customers injured by defective products. Future sales are lost because of disgruntled customers. Poor quality means the commitment of resources to rectification of errors and quality inspection.

The most popular approach to managing quality is called Total Quality Management (TQM). TQM is a strategic commitment by top management to change its whole approach to business by making quality a guiding factor in everything it does. According to Edward Deming, TQM is a way of creating an organisational culture committed to the continuous improvement of skills, teamwork, processes, product and service quality and customer satisfaction. TQM is anchored to the organisational culture because successful TQM is deeply embedded in virtually every aspect of organisational life.

Deming's Advice on Achieving Quality

W E Deming was originally trained as a statistician and started teaching process control (a method of measuring variation and continuously improving work processes before the final inspection stage to prevent the production of flawed products) in Japan shortly after World War II. He is recognises internationally as an important contributor to Japanese quality improvement programmes. Deming advocates that the way to achieve product quality is to continuously improve the design of a product and the process used to manufacture it. According to Deming, top management has the primary responsibility of achieving product quality. Deming advocates that management should follow fourteen principles to achieve a high level of success in improving product quality.

- **Create and publish to all employees a statement of objectives of the company. The management must demonstrate constantly their commitment to this statement.**
- **Learn the new philosophy — top management and everybody.**
- **Understand the purpose of inspection — for improvement of processes and reduction of cost.**
- **End the practice of awarding business on the basis of price tag alone.**
- **Improve constantly, and forever, the system of production and service.**
- **Institute training.**
- **Teach and institute leadership.**
- **Drive out fear. Create trust. Create a climate for innovation.**
- **Optimize towards the aims of the company, the efforts of teams, groups and staff areas.**

- **Eliminate exhortations for the workforce.**
- **Eliminate numerical quotas for production. Instead learn and institute methods for improvement. Eliminate management by objectives. Instead, learn the capabilities of processes and how to improve them.**
- **Remove barriers that rob people of pride of workmanship. Encourage education and self improvement for everyone. Take action to accomplish the transformation.**

TQM: The Main Ideas

TQM is built around four main ideas: do it right the first time, be customer centered, make continuous improvement a way of life and build teamwork and empowerment. Let's examine each of these in detail.

Do it right the first time: **Managers have been interested in the quality of their products, at least as an afterthought, since the Industrial Revolution. Thanks to the sustained efforts of quality gurus like Deming and Kaoru Ishikawa, product/service quality has become both forethought and a driving force in effective organisations of all kinds nowadays. Today's hospitals, universities and public sector organisations are as interested in improving product/service quality as are manufacturing organisations, mines, airlines and railways. In its most basic form, the emphasis on quality has come through four distinct phases since World War II — from 'fixes it in' to 'inspect in' to 'build it in' to 'design it in'. Present day managers are moving away from the first two approaches and towards the 'build it in' and 'design it in' approaches. Let's look into the differences in these approaches.**

*** The 'fix it in approach to quality: Rework any defective products identified by quality inspectors at the end of the production process.**
*** The 'inspect it in approach to quality: Here quality inspectors sample work in process and prescribe machine adjustments to avoid substandard output.**
*** The 'build it in' approach to quality: Make everyone who touches the product responsible for spotting and correcting defects. Emphasis is on identifying and eliminating causes of quality problems.**
*** The 'design it' in approach to quality: Intense customer and employee involvement drives the entire design production cycle. Emphasis is on continuous improvement of personnel, processes and product.**

Each stage of this evolution has broadened the responsibility for quality, literally turning quality improvement into a true team effort. Also, the focus has shifted from reactively fixing product defects to proactively working to prevent them and to satisfy the customer completely. Just having 'zero things gone wrong' is not sufficient now — instead it is important to offer something of value to the customer and buy his loyalty. Today's quality leaders strive to exceed, not just meet, the customers' expectations. Putting quality first is the 'new slogan.

Be customer centered: **Organisations have to meet the expectations of both the internal as well as external customers. Internal customers are other members of the organisation who depend on your work to get their job done. For example, a corporate lawyer employed by Maurya Hotel does not directly serve the hotel chains' customers by changing beds, serving meals or carrying luggage. But that lawyer has an internal customer when a Maurya manager needs to be defended in court. As far as external customers are concerned, TQM demands all employees who deal directly with outsiders to be customer centered which means:**

- **Anticipating the customer's needs**
- **Listening to the customer**
- **Learning how to satisfy the customer and**
- **Responding appropriately to the customer.**

Make continuous improvement a way of life: **The Japanese word for continuous improvement is Kaizen, which means improving the overall system by constantly improving the little details. Kaizen practitioners look at quality as an endless journey, not a final destination. In order to improve things they experiment, measure, adjust continuously. Rather than naively assuming that zero defects means perfection, they try to put their finger on the problem. There are four ways of achieving improvements.**

Improved and more consistent product and service quality.

- **Faster cycle times (in cycles ranging from product development to order processing to payroll processing).**
- **Lower costs and less waste (for example, eliminating needless steps, scrap rework and non-value adding activities).**
- **TQM advocates emphasise the importance of achieving greater quality, speed and flexibility at lower cost and waste. You need not sacrifice onething in order to give another thing. All things are possible, provided you work with a clear-cut focus, i.e., improving things.**
- **Build teamwork and empowerment: TQM is built around employees, their needs, aspirations and expectations. It is employee-driven. It allows employees to exploit their full potential. Empowerment takes place when employees are properly trained, provided with all relevant information and the best possible tools, fully involved in key decisions and fairly rewarded for results. In order to carry out work effectively and efficiently, teams have to be created, drawing talent from various departments in a cooperative way.**

TQM TOOLS AND TECHNIQUES

Managers can use several tools and techniques for improving quality. Some of the important techniques are discussed below:

• *Benchmarking:* **It is the process of learning how other firms (the toughest competitors or those recognised as industry leaders) do exceptionally high-quality things. The key to successful benchmarking lies in analysis. Starting with its own mission statement, a company should look into its current procedures and mark areas for improvement. Then the company should carefully pick up competitors worthy of copying.**

• *Outsourcing:* **It is the process of self-contracting services and operations to other firms that can do them cheaper or better (or both). By farming out activities in which they do not have expertise, such as human resource or inventory management, firms can cut down costs on employee benefits and free existing personnel for other duties.**

• *Quality circles:* **A quality circle is a small group of employees who meet periodically to solve quality problems related to their jobs. The reason for using quality circles is to push decision making to an organisation level at which the people who do the job and know it can make recommendations better than anyone else.**

Statistical quality control: **Managers, traditionally, use inspection to control product quality. Inspection is simply examining and grading finished products, components or products at any stage of production. The purpose of inspection is to discard products or components that do not meet reestablished quality standards. Managers must generally determine not only what products or product components to inspect but also how many units or components to inspect. One way of addressing this question is called statistical quality control (SQC) . SQC is a process used to determine how many units of a product should be inspected to calculate a probability that the total number of units meets organisational quality standards. Although managers limit inspection costs by not examining all units, they must take care to see that the number of units inspected gives an accurate measurement of the quality of the products being manufactured.**

NOT IN SYLLABUS

Financial Strategy

- **Procurement of Fund**
- **Utilization Fund**
- **Financial Ratio Analysis: Liquidity ratio, leverage ratio, activity ration, profitability ratio etc.**
- **Strategic investment decision**

Marketing Strategy

- **Market segmentation**
- **Product positioning**
- **Product strategies**
- **The PLC Concept**
- **Pricing Strategies**

HR Strategy

- **HR Planning**
- **Recruitment**
- **Selection**
- **Induction**
- **Training & Development**
- **Performance Appraisal**
- **Career Planning and Development**
- **Compensation planning**
- **HR Strategy in a dynamic environment.**

Module- 8

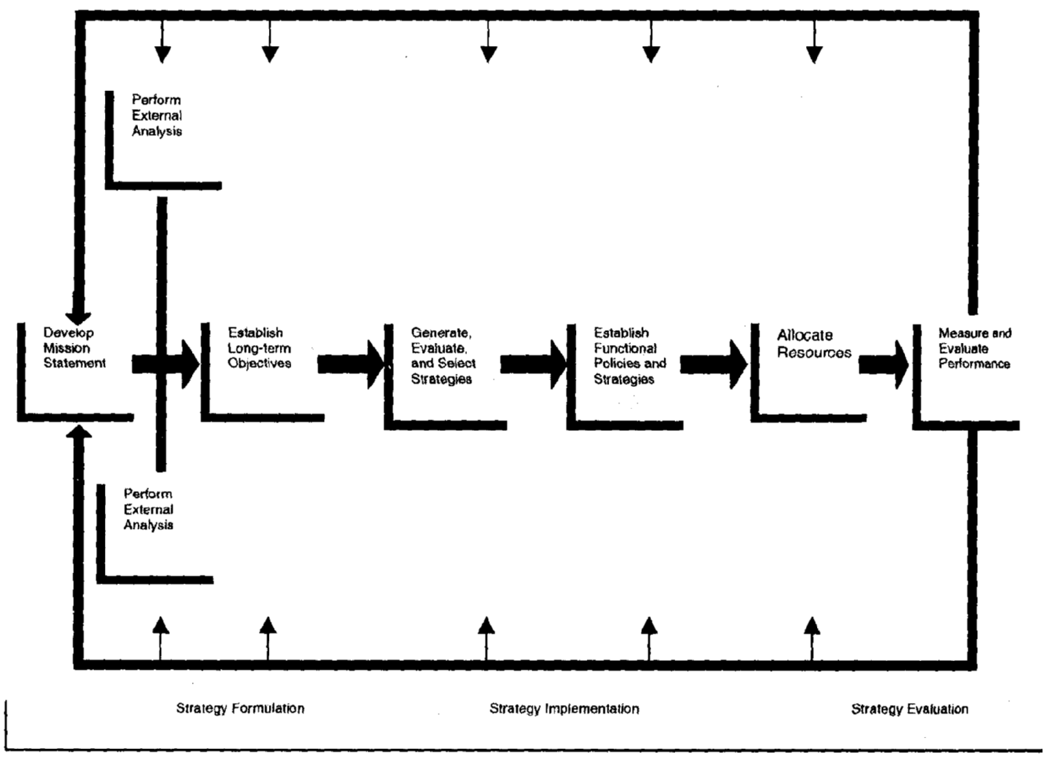
Hand Out by Prof Bholanath Dutta

Strategic review and audit *– Strategic control guiding and evaluating strategies – establishing strategic controls – operational control systems – monitoring performance and evaluating deviations – challenges of strategy implementation.*

Introduction

Strategy evaluation and control (SEC) is the final phase of strategic management. The basic I purpose of strategy evaluation and control is to determine the effectiveness of a given strategy j in achieving the organisational objectives and taking appropriate corrective action whenever; required. According to F.R. David, strategy evaluation includes three basic activities: (i) examining the underlying bases of a firm's strategy (ii) comparing expected results with actual results and (iii) taking corrective actions to ensure that performance conforms to plans.

Operations and Influences of International Business



Strategy evaluation generally operates at two levels: strategic and operational. At the strategic level, managers try to examine the consistency of strategy with environment. At the operational level, the focus is on finding how a given strategy is effectively pursued by the organisation.

Importance

There are several reasons why a strategy may not produce desired results. The external factors may not be in tune with the strategy. Competitors may also spring surprises occasionally with unexpected moves that may create major gaps in the strategy. Having spent time, effort and money while formulating strategies, it is, therefore, not advisable to leave the implementation of strategy to chance. Managers need to constantly monitor everything, introduce checks and balances and carry out mid-course corrections at an early stage while implementing the strategies. SEC helps an organisation in several ways.

• ***Feedback:*** SEC offers valuable feedback on how well things are moving ahead. It also throws light on the relevance and validity of strategic choice made previously. More importantly, SEC tries to closely monitor performance and offer feedback by answering certain critical questions such as (Thompson).

- ***Are we moving in the proper direction?*** Are key things falling into place? Are our assumptions about major trends and changes correct? Are we doing the critical things that need to be done? Should we adjust or abort the strategy?

- ***How are we performing?*** Are objectives and schedules being met? Are costs, revenues, and cash flows matching projections? Do we need to make operational changes?

- ***Reward.:*** SEC helps in identifying rewarding behaviors that are in tune with formulated strategies. It helps in pinpointing responsibility for failures as well. Where people find it difficult to stick to a planned course of action due to circumstances beyond their control, managers can take note of such things and initiate suitable rectificational steps immediately.

- ***Future Planning:*** SEC offers a considerable amount of information and experience to decision makers that can be quite valuable in the formulation of new (often improved) strategic plans.

Barriers

There are three types of barriers in evaluation: the limits of control, difficulties in measurement, and motivational problems.

- ***The limits of control:*** It is not easy for strategists to decide the limits of control. Too much control prevents managers from taking initiative, experiment with their creative ideas and gain through calculated risk taking. On the other hand, when there is very little control people tend to go off the hook, waste resources without any fear of punishment and work at cross purposes — putting a big question mark on the very survival of the firm.

- ***Difficulties in measurement:*** It is not easy to find measurement techniques that are valid and reliable. Validity is the extent to which an instrument measures what it intends to measure (for example measuring the speed and accuracy of a typist in a typing test). Reliability is the confidence that an indicator will measure the same thing every time. "A yardstick that measures me 60 inches tall every time I use it, is reliable". In the absence of reliability and validity, the control system gets distorted. It may fail to measure results uniformly or measure attributes that are not required to be measured. When people are not confident about the measures used for judgment, they resist the whole process vehemently.

- ***Motivational problems:*** Having taken a position while formulating and implementing the strategy, strategists are often reluctant to admit their mistakes when things go off the track. Instead of setting their own house in order, they tend to shift the blame on others. This may also prevent them from hiving off unprofitable divisions, reversing wrong decisions and go in search of more viable alternations quickly.

These barriers, of course, can be avoided if people at all levels begin to look at evaluation in a positive manner. To establish truth, several qualitative and quantitative criteria should be used. Once the criteria are known to everyone, it becomes easy to find gaps, pinpoint responsibility and initiate mid-course connections quickly.

Evaluation Criteria

The critical factors that could help in evaluating a strategy may broadly be classified into two categories: quantitative factors and qualitative factors.

Quantitative Factors: Quantitative criteria commonly employed to evaluate strategies are financial ratios, which strategists use to make three important comparisons: (i) comparing the firm's performance over different time periods (ii) comparing the firm's performance to competitors' and (iii) comparing the firm's performance to industry averages. Some key financial ratios that are particularly useful as criteria for strategy evaluation may be stated thus:

- Return on investment
- Return on equity
- Z score
- Employee turnover
- Employee satisfaction index
- Return on capital employed
- Profit margin
- Market share
- Debt to equity
- Earnings per share
- Sales growth
- Asset growth

However, there are some potential problems associated with using quantitative criteria for evaluating strategies. First, most quantitative measures are tied to annual objectives rather than long-term objectives. Second, different accounting methods can provide different results on many quantitative measures. Third, dividing the quantitative measures for various purposes involves judgment. For these and other reasons, qualitative criteria are also to be taken into account while evaluating strategies.

QUALITATIVE FACTORS

Many managers feel that qualitative organisational measurements are best arrived at simply by answering a series of important questions aimed at revealing important facets of organisational operations. The following list of questions, suggested by Milton Lauenstein, could be useful to the practicing manager:

Seymour Tiles identified six qualitative questions that are useful in evaluating strategies way back in 1963 thus.

1. Is the strategy internally consistent?
2. Is the strategy consistent with the environment?
3. Is the strategy appropriate in view of available resources?
4. Does the strategy involve an acceptable degree of risk?
5. Does the strategy have an appropriate time framework?
6. Is the strategy workable?

Some additional key questions that reveal the need for qualitative or intuitive judgments in strategy evaluation may be listed thus.

1. How good is the firm's balance of investments between high-risk and low-risk projects?
2. How good is the firm's .balance of investments between long-term and short-term projects?
3. How good is the firm's balance of investments between slow-growing markets and fast-growing markets?
4. How good is the firm's balance of investments among different divisions?
5. To what extent are the firm's alternative strategies socially responsible?
6. What are the relationships among the firm's key internal and external strategic factors?
7. How are major competitors likely to respond to particular strategies?

Rumelt etal suggested the following set of factors for strategy evaluation in early 80s.
Qualitative measures need to be used with care and caution because they involve significant amounts of human judgement. Conclusions based on such measures must be drawn carefully, because this subjective judgement if exercised incorrectly could easily render evaluation results invalid.

Strategic Control

A strategy is built around several assumptions. These relate to the environmental and organisational factors which are ever-changing. Strategies once formulated, are not translated into action immediately. The implementation process itself, takes lot of time. During the intervening period, changes might occur that have major ramifications for the strategy's ultimate success. As a result, the traditional post action controls should be replaced by some early warning systems that help managers rectify things as the strategies are implemented. "Strategic Control' is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments" (Pears and Robinson). The most important purpose of strategic control is to help top management achieve organisational goals through monitoring and evaluating the strategic management process.

As we have seen, the strategic management process results in an assessment of organisational environment (environmental analysis), the establishment of organisational mission and goals (establishing organisational direction), the development of ways to deal with competition in order to reach these goals and fulfill the organisation's mission (strategy formulation), and a plan for translating organisational strategy into action (strategy implementation). Strategic control provides feedback that is critical for determining whether all steps of the strategic management process are appropriate, are compatible, and are functioning properly.

There are four types of strategic control:

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

PREMISE CONTROL

As mentioned above, strategy is built around certain assumptions about environmental and organisational factors. Premise control is designed to check systematically and continuously whether the premises on which the strategy is based are still valid. If an important premise is no longer valid, the strategy may have to be changed. For instance, the slowdown in the economy in late 90s has forced commercial vehicle manufacturers (Ashok Leyland, TELCO) to trim their workforce, shift to a 4-day work-week with reduced working hours and initiate several other cost cutting measures simultaneously. They did not wait for the economy to pick up nor continued with their traditional ways of working. Instead they have tried to take corrective action at the right time taking note of the futility of continuing with a strategy based on invalid assumptions. Premise control, thus, helps strategists to reject an invalid premise, and shift their focus towards an alternative that is feasible and advantageous. To save time and expenses, managers must pick up only those premises whose change is likely and would have a major impact on the firm and its strategy. The responsibility for identifying such key premises and checking on their continued validity can be assigned to the corporate planning staff.

IMPLEMENTATION CONTROL

.Strategy implementation takes place as a series of steps, programmes, investments and moves that occur over an extended period of time. Resources are allocated, key people are put in place, special efforts are made from time to time in order to implement a strategy. Implementation control is aimed at assessing whether the plans, programmes and policies are actually guiding the organisation towards its predetermined objectives or not. If the resources that are committed to a project at any point of time would not benefit an organisation as envisaged, corrective steps should be undertaken immediately. This way the organisation can find the success of new product launches, diversification moves and proceed in a cautious manner. An important method for achieving implementation control is the milestone review in which all key activities necessary for implementation of a strategy are identified in terms of events, major resource allocation or time. After tracking important milestones, a thorough review of the implementation process is undertaken to find its continued relevance to achievement of objectives.

Strategic Surveillance: Strategic surveillance aims at a more generalised overreaching control designed to monitor "a broad range of events inside and outside the company that are likely to threaten the course of a firm's strategy". It is done generally through a general kind of monitoring based on selected information sources to uncover events that are likely to affect the strategy of an organisation.

SPECIAL ALERT CONTROL

A special alert control is the thorough and often rapid reconsideration of the firm's strategy because of a sudden, unexpected event. Examples of such events can be the sudden fall of a government, a complete shift in competitor's posture, a natural calamity, a racial or religious battle, an industrial disaster etc. In the face of such unexpected events, the firm should respond immediately, and reassess its strategies quickly. Contingency plans and crisis management teams must be kept ready to handle such situations.

Operational Control

Operational controls provide post-action evaluation and control over short periods. They require systematic evaluation of performance against predetermined standards. An important issue here is identification and evaluation of performance deviations, with careful attention paid to find the underlying causes for and a strategic implication of observed deviations before management reacts. Firms generally employ trigger points and contingency plans for this purpose.

Evaluation Techniques for Operational Control

The techniques that are employed for internal appraisal are used for operational control as well as (discussed in chapter 7). Let's briefly summarize some of the important operational techniques here.

- ***Value Chain Analysis:*** Firms employ value chain analysis to identify and evaluate the competitive potential of resources and capabilities. By studying their skills relative to those associated with primary and support activities, firms are able to understand their cost structure, and identify their activities through which they can create value.

- ***Quantitative Performance Measurements:*** Most firms prepare formal reports of quantitative performance measurements (such as sales growth, profit growth, economic value added, ratio analysis etc.) that managers review at regular intervals. These measurements are generally linked to the standards set in the first step of the control process. For example if sales growth is a target, the firm should have a means of gathering and exporting sales data. If the firm has identified appropriate measurements, regular review of these reports helps managers stay aware of whether the firm is doing what it should do. In addition to these, certain qualitative bases based on intuition, judgement, opinions, or surveys could be used to judge whether the firm's performance is on the right track or not.

- ***Benchmarking:*** It is a process of learning how other firms do exceptionally high-quality things. Some approaches to bench marking are simple and straightforward. For example Xerox Corporation routinely buys copiers made by other firms and takes them apart to see how they work. This helps the firms to stay abreast of its competitors' improvements and changes.

- ***Balanced Score Card:*** It tries to do away with the bias in performance measures towards financial tools and tries to build a comprehensive, holistic objective system of measurement. The score card takes into account four key performance measures, (i) customer perspective: How do customers see us? (ii) Internal business perspective: What must we excel at? (iii) Innovation and learning perspective: Can we continue to improve and create value? (iv) Financial perspective: How do we reward shareholders?

- ***Key Factor Rating:*** It is based on a close examination of key factors affecting performance (financial, marketing, operations and human resource capabilities) and assessing overall organisational capability based on the collected information.

Network techniques like Programme Evaluation and Review Technique (PERT), Critical Path Method (CPM) are also used to ensure effective operational control over scheduling and resource allocation in projects. Other techniques that help in evaluating organisational performance have already been discussed elaborately elsewhere .

The Control Process

Operational control is exercised through a process consisting of four steps:

I. Establishment of standards: The first step in the control process is establishing standards. Standards are the targets against which subsequent performance will be compared. They are, by definition, simply criteria of performance. They serve as the benchmarks because they specify acceptable levels of performance. Control standards are broadly divided into two categories.

- ***Quantitative standards:*** These are generally expressed in physical or monetary terms. Such standards are set up in respect of production, finance, sales, etc., where results can be measured in exact quantitative terms. Quantitative standards may be further divided as follows:

i. Time standards: Time standards state the length of time it should take to make a certain good or perform a certain service. An airline pilot has a standard time span in which to make a certain trip.
ii. Cost standards: Cost standards are based on the cost of producing the goods or services. For example, the material cost might be Rs. 10 per unit. Cost standards^ specify the cost limits within which results should be achieved.

iii. Productivity standards: Standards of productivity are based on the output of goods or services during a set time period. For instance, a productivity standard might be to complete 10 units or serve 150 customers per hour.

iv. Revenue standards: They arise from attaching monetary values to sales. They may include such standards as revenue per passenger - mile, average sale per customer or sales per capita in a given market area.

• ***Qualitative standards***: Standards of quality are based on the level of perfection desired in respect of certain intangible items such as goodwill, employee morale, industrial relations, etc., tests, surveys and sampling techniques are used to prove human attitudes and drives in respect of above items before specifying a limit.

• ***How to set the standards?:*** Setting standards for every operation is an inescapable task of management.

(i) Before setting standards, an executive must study the characteristics of the work.

(ii) Executives must consider ordinarily flexible and generally acceptable levels of good performance in terms of work characteristics.

(iii) As nature of work differs with every operation (unit), the characteristics are different and so are the standards.

(iv) Standards are set, thus, depending on the characteristics of the task.

II Measurement of actual performance: The second step in control process is the measurement of actual performance. Here, the actual performance of employee is measured against the standard fixed for his job. This should be done in an objective manner. Where standards are expressed in numerical terms, measurement does not create problems. For example, performance of a worker in terms of units produced in a week could be easily measured against the standard output for the week. On the other hand, measuring the performance of a personnel manager (where standards cannot be set in precise terms) is not easy. We have to see indirect measures such as number of strikes organised during his tenure, say 5 years, man-days lost during his period etc. Generally speaking, measurement of performance is more difficult at the higher levels of management. Coming to the technique of measurement, measurement can be done directly through personal observation or indirectly through regular reports (oral or written).

Personal observation provides first-hand and intimate knowledge of the actual operation, function or activity. The information is not filtered through others. Personal observation is a very good method, in that it can pick up omissions, facial expressions and tone of voice that may be missed by other sources. However, it is subject to personal bias. What one manager sees, another manager may not see. Moreover, it is time-consuming and obtrusive and it also develops a sense of insecure feeling in subordinates that the manager is not having confidence in them. Nowadays, statistical reports are widely employed by managers in order to measure performance. It includes computer printouts, graphs, charts, bar charts and numerical displays of any form. Again, acquisition of information through conferences, meetings, one-to-one conversations or over the telephone or telex represents the examples of oral reports. One chief limitation of this method is that there is the problem of documenting this information for future references. Managers, during the measurement phase, must be in a position to express all the jobs and activities in tangible and measurable terms. Of course, when the performance indicator cannot be stated in quantitative terms then the manager can use subjective criteria. Any analysis or decisions made based on subjective criteria should recognise the limitations of subjectiveness.

In large scale units, checking all items produced is not easy. In such cases, managers pick certain items at random and check the pace of work. To check performance at higher levels, managers concentrate on key or strategic points only. Performance is measured usually at periodic intervals (weekly, monthly, quarterly or yearly) without upsetting the routine work.

To make the checking process effective, the manager has to concentrate on three key aspects of measurement, viz., completeness, objectivity, and responsiveness.

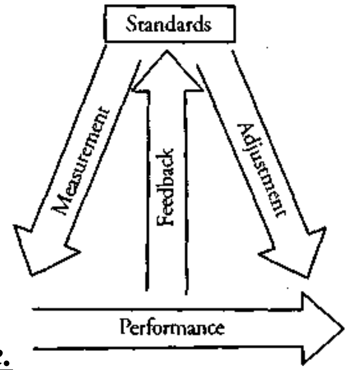
(i) Completeness: Complete measures provide an opportunity for the manager to concentrate on all aspects of the job instead of neglecting unmeasured: asks in favour of measured ones.

(ii) Objectivity: Objective measures avoid the risks of bias and resentment, inherent in subjective assessment of task and people.

(iii) Responsiveness: Responsive measures support the belief that effort and performance lead to improvement in the systems of control.

These three types of measurement are equally important for all jobs in organisations.
When to measure? It is a matter of general principle that measurement and evaluation are done after the task is accomplished. At times, however, measurement of work may be done even during the performance, and certain adjustments, are made in the case of production of certain commodities. Sometimes, performance may by checked on the completion of each phase in the production and in the case of assembling task, each part is checked before assembling.

Measurement, Feedback and Adjustment during



Performance.

Source: David R. Hampton, Contemporary management p.448

Whenever it is not possible to measure performance prior to completion (of the items produced) then measurement is done after accomplishing the task. Even when measurement during the performance is possible, management may not practice it due to cost incurred in doing so. Cost becomes one of the important variables affecting measurement during performance. If cost incurred is not much and time consumed is also ignorable, then measurement during the work is advisable.

Comparison of actual performance with standard: The comparing step determines the degree of variation between actual performance and the standard. Some variation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of variation. Deviations in excess of this range become significant and receive manager's attention. All such deviations may be due to errors in planning, defective implementation or careless performance of the operatives. As a matter of fact, only major or exceptional deviations should be communicated to top management in the form of reports. This is known as 'management by exception'.

Taking corrective action: The last and final step in the control process is taking corrective action, when required. Corrective steps are initiated by managers with a view to rectify the defects in actual performance. If actual performance for example, falls short of standards due to non-availability of materials, managers try to procure these materials and thus set things in order. If it is due to poor results shown by employees, it could be rectified through the introduction of attractive incentive plans. Thus, a corrective action may involve a change in methods, rules, procedures etc. Sometimes, variations might occur due to unrealistic standards. That is, the goal may be too high or too low. In such cases, managers try to set things in order by revising the standards altogether.

Corrective action, as mentioned above, includes the change in strategy, structure, compensation practices, training programmes, redesign of jobs, replacement of personnel, re-establishment of budgets or standards, etc. Corrective action may be immediate or basic. Immediate corrective action corrects something right now but gets things back on track. This is, therefore, temporary in nature. Basic corrective action, however, is concerned with permanent solution to the problem of serious deviations. A manager should not mind revising the standard when the standard is set at an unreasonably low or high level. High standards pose insurmountable problems to operators and breed discontentment and frustration. Low standards make employees docile and unproductive. For example, when a particular important project in a company is running behind schedule, corrective action may include the following steps: (i) overtime may be permitted, (ii) additional workers and equipment may be assigned, (iii) a full time director may be assigned to personally push the project through, (iv) if these actions fail, the schedule may have to be revised. However, if most of the projects in the company are usually behind the schedule and even more serious type of basic corrective action may be demanded. The need for a drastic overhaul of control process and reorganisation of the company may be required.

Characteristics of an Effective Control System

Effective control systems tend to have certain qualities in common. These can be stated thus:

1. Suitable: The control system must be suitable to the needs of an organisation. It must conform to the nature and needs of the job and the area to be controlled. For example, the control system used in production department will be different from that used in sales department.

2. Simple: The control system should be easy to understand and operate. A complicated control system will cause unnecessary mistakes, confusion and frustration among employees. When the control system is understood properly, employees can interpret the same in a right way and ensure its implementation.

3. Selective: To be useful, the control system must focus attention on key, strategic and important factors which are critical to performance. Insignificant deviations need not be looked into. By concentrating attention on important aspects, managers can save their time and meet problems head-on in an effective manner.

4. Sound and economical: 'The system of control should be economical and easy to maintain. Any system of control has to justify the benefits that it gives in relation to the costs it incurs. To minimize costs, management should try to impose the least amount of control that is necessary to produce the desired results.

5. Flexible: We live in a world of supersonic changes. Competitive, technological and other environmental changes force organisations to change their plans. As a result, control should be necessarily flexible. It must be flexible enough to adjust to adverse changes or to take advantage of new opportunities.

6. Forward-looking: An effective control system should be forward-looking. It must provide timely information on deviations. Any departure from the standard should be caught as soon as possible. This helps managers to take remedial steps immediately before things go out of gear.

7. Reasonable: According to Robbins, controls must be reasonable. They must be attainable. If they are too high or unreasonable, they no longer motivate employees. On the other hand, when controls are set at low levels, they do not pose any challenge to employees. They do not stretch their talents. Therefore, control standards should be reasonable - they should challenge and stretch people to reach higher performance without being demotivating.

8. Objective: A control system would be effective only when it is objective and impersonal. It should not be subjective and arbitrary. When standards are set in clear terms, it is easy to evaluate performance. Vague standards are not easily understood and hence, not achieved in a right way. Controls should be accurate and unbiased. If they are unreliable and subjective, people will resent them.

9. Responsibility for failures: An effective control system must indicate responsibility for failures. Detecting deviations would be meaningless unless one knows where in the organisation they are occurring and who is responsible for them. The control system should also point out what corrective actions are needed to keep actual performance in line with planned performance.

10. Acceptable: Controls will not work unless people want them to. They should be acceptable to those to whom they apply. Controls will be acceptable when they are (i) quantified, (ii) objective (iii) attainable and (iv) understood by one and all.