CHAPTER

1

Business Planning and Strategic Management

The evolution of business policy can be traced to the roots of use of planning techniques employed by managers. Planning as such is an elusive subject and we can hardly say that there would exist an effective unique way to plan in a given business situation. Planning is, in fact, a very complex social activity that cannot be either empirically or quantitatively structured with great accuracy, using the existing techniques. The central theme of planning is to organise an activity or business in a disciplined way and to evolve guidelines for an organisation to achieve a better position. In order to meet this objective, an effective planning system has to focus on two relevant dimensions, viz. being aware and responding to external environment and searching for new ways to effectively deploy internal resources to gain a competitive edge. Thus, planning is the core capacity developed by firms to adapt themselves to the environmental changes, whether they are internal to the company or external to the company. The internal response of the companies to the need for adaptability is not passive to external environmental movements, but is an active, decisive, creative and vigorous search for conditions that can secure a profitable niche for a company in a given hostile environment. Lack of awareness to changes in economy, competitive, social, and technological environment can become fatal for companies and they may eventually perish. A vigilant attitude by companies towards external factors is a major driving force behind the capabilities of companies to survive in the predatory competitive markets.

The response of companies to the external environment reflects in the form of clearly defined action programs, with clearly defined objectives. The action programs may be short term or long term. These action programs define the totality of actions that an organisation would like to take for facing competition, and hence, planning is viewed as the most valuable technique to coordinate the efforts of all the departments of an organisation. Various departments of an organisation, viz. manufacturing, sales, marketing, design, research and development, personnel, finance and accounts coordinate and develop responsive systems to new challenges that an organisation faces. The planning process should also consider the needs of the individual talents and capabilities of members of an organisation and cater to their personal aspirations and at the same time orient focus on the corporate values, traditions and organisational culture.

STAGES OF PLANNING

The five major stages of evolution of planning can be enumerated as follows.

i. Budgeting and Financial Control
ii. Long Range planning
iii. Business Strategic Planning
iv. Corporate Strategic Planning
v. Strategic Management

These will be discussed in detail at a later stage in this chapter.

EVOLUTION OF ORGANISATIONS AND INDIAN BUSINESS SCENARIO

For over two hundred years, companies have been founded and built around Adam Smith's principle that industrial work should be fragmented and broken down into its simplest and most basic tasks. This has led to shaping of structure, management, and performance of business organisations all over the world during the nineteenth and twentieth centuries. The division of work was not only applied to production function but also to management function. The evolutionary steps taken about one hundred and fifty years ago by Henry Ford and Alfred Sloan paved the path for systems that are still in vogue in various organisations. Alfred Sloan in General Motors created smaller and decentralised divisions that managers could effectively control. The executive did not require expertise in various areas viz, engineering, manufacturing, marketing and personnel, but they were financial experts. The final evolution in the management of organisations took place during the end of World War II and in the 1960s due to enormous economic expansion in our country. The managers underwent elaborate planning exercises and determined the business in which they wanted to be, how much capital was to be deployed in each unit, and what kind of returns they expected from these businesses to be delivered. The controllers, planners, and auditors acted as eyes and ears of management to evaluate performance of various businesses. These organisational models which were thus developed, spread to the entire world.

During the period between 1950s and 1960s, giant public sector companies were born in India. The major operational concern of a company executive was capacity expansion. The demands of goods were high and supplies were scarce. In case a company built too little of productive capacity or built it quite late, it could lose the market share due to its inability to produce and meet the demand's of customer's in terms of quantity. Quantity of goods was the prime concern of companies.

To avoid such a situation, companies developed systems for budgeting, planning, and controlling. The standard pyramidical organisation came into existence and whenever people were needed to produce more, they were added in the lower-most level. This structuring of organisation also suited for control and planning as the work was fragmented and supervisors could ensure performance consistent with the needs of the plan and control was better over the total situation. Budgets were approved and followed department-wise and progress of work monitored as per budgeted figures. Training was simple as tasks were simple and hence no one required rigorous training.

With the advent of new office technology, white collar jobs were also further fragmented into small repetitive tasks that could be automated or mechanized. The number of tasks required to produce a product grew and became complicated, and managing these tasks became even more complicated. The companies had to pay a high price for maintaining a large number of people in the middle level of giant organisations and reaped meagre benefits of controlling simple and repetitive tasks. The growing number of people in middle level created more distance between senior management and the end user of the product. The end users, had no say and companies did not heed for them. Product features other than the requirement of products were not considered. The people queued at the gates of companies, distributors, dealers to get a product and they happily accepted whatever they got. In case of government undertakings, in India, the products in some cases were even sold below the cost price due to political and social reasons that led them into rough weathers. These companies operated in protected economic environment with assured markets, however, the financial aspects were grossly overlooked.

The business scenario in the country has slowly undergone profound transformations as the socio-political environment of the country has experienced drastic changes. We are presently living through a period of growing technological, political, economic, and social changes.

The rapid advance in information technology, electronics, communication and so on, have changed the lifestyles of people (Refer Exhibit 1.1). The focus has now changed from production to marketing. The continuous increase in competition and slowed down economic growth has again raised productivity, quality, and cost at the level of primary managerial concerns. The changes in the business world today are too many and too often due to rapid changes in various forces that drive a business. The trends in business today are also rapidly undergoing changes.

In decades to come, the changes are expected to be more fierce in the business world due to changed rules of business that are evolving due to changes in environment, society, technology, politics, economic situations, population, etc. There has been increased internationalization of business, increased scarcity of raw materials and natural resources. The changes in business situations today are more complex and affect a wider cross-section.

Exhibit 1.1 Indian Software Industry

About 158 out of fortune 500 companies have either their own software setup or have tie-ups with Indian software companies. The software being sourced from India is now not on data processing alone but also on programming.

One of the key reasons for the fortune 500 companies turning to India is the amount of learnability that Indians have. The companies get a programmer at low cost with an ability to program in at least three languages, which does not decrease with age.

Source: *Economic Times,* Nov. 24. 1998.

Today, the trends are far more flexible and adaptable organisations that can survive the onslaught of predatory competition and meet raised expectations of customers for quality, cost, delivery and service. Flexibility and adaptability have become necessary condition for survival and growth.

The increasing integration of markets, foreign exchange, technology, economic policies, and globalisation of issues (Refer Exhibit 1.2) has made it necessary for companies to evolve their own strategies that will enable them to survive the effects of new and fast changes. Indian business houses have realised that they will have to change their ways of doing business and adopt certain new strategies to effectively managing the risks emerging out of a highly volatile business scenario. Inflexibility, non-responsiveness, near total absence of customer focus, bureaucratic paralysis, lack of innovation, high overheads, and the legacies of Indian business system will have to be thrown away if companies have to survive.

Exhibit 1.2 Caste War Taking a Turn

The real war, which has been taking place in the century is the caste war. There are primarily red, yellow, white and black races on this globe. The red have been eliminated. The whites don't allow blacks and yellows, to meet who form a significant part of the population. The Asian nations that were neither thought to be as basket cases by West (India and China in particular) will soon be world players by virtue of the sheer size of their population. India and China have a history of producing hard-working entrepreneurs who will dominate the business world. The two countries share many similarities, including their approach to economics and it is likely that they would further converge. The differences in India between plane and hill regions, north and south and those in China between coastal regions (such as Guangdong) and deep interior may further cause tremors but despite these enormous tensions the transformations would be peaceful.

Source: David Mercer, *Future Revolution,* Orion Business Books, 1998.

Today, we are finding that in one industrial holding company, there are producers of airplanes, chemicals, furniture, shoes, printing works, textiles etc. The strategic alliances, conglomerations, integrations, etc., have become very common in today's business world (Refer Exhibits 1.3 and 1.4). The liberalisation, besides many other things, has exposed the domestic market to continuous marketing pressures of transnational corporations (Refer Exhibit 1.5). It would be inevitable that there would be more mergers and sellouts on commercial and financial grounds.

Exhibit 1.3 Siemens Buys AEL Capacitor

Siemen's Matsushita Components (SMC), which is the Components Division of Siemen's Ltd. has bought capacitor unit for US $ 5.6 millions in its efforts to make India an export base for global sales. SMC has bought the Nasik-based AC capacitor unit of Asian - Electronics Ltd (AEL).

Source: *Economic Times,* Nov. 24, 1998.

Exhibit 1.4 Take Over of Nicco Unit

The government of West Bengal has invited Samsung Electronics of South Korea for taking over the ailing television company Webel Nicco's facilities. This decision has been taken by Bidyut Ganguly, State Industry Minister, due to poor financial health of the company. The company's condition deteriorated due to stoppage of placement of orders by Phillips.

Source: *Economic Times,* March 2, 1999.

Exhibit 1.5 IA No More a Domestic Airline

The chairman and managing director of IA, Anil Baijal said that IA was no longer a domestic airline. It aims to penetrate the international market in which it has already carved a niche for itself. The IA has developed a number of markets in the Gulf region and is actively looking at south-east Asian markets like Hongkong, Kuala Lumpur- and Bangkok. One of the priorities is also to channelise international air traffic from Uttar Pradesh to international destinations. An IA traffic survey team is exploring the possibility of Philippines as a foreign destination.

Source: *Economic Times*, March 2, 1999.

It has become increasingly difficult for organisations to make decisions about their future in this complex and fast changing business environment.

VALUE OF STRATEGIC MANAGEMENT

The complex and sophisticated business environment discussed above has created an urgent the need for strategic management for organisations. To deal effectively with the challenges of environment, including competitors, when profits are at stake; suppliers, when resources are becoming even more scarce; government agencies when adherence to growing number of regulations has become imperative and customers, who have more and more expectations from products in the form of quality, service, cost, and delivery to their satisfaction. Companies are designing strategic management processes to adequately account for all these variables.

The strategic management processes facilitate to optimally position a firm in a given competitive environment. The positioning of the companies in an environment that is charged with competition is quite accurately done using strategic management process, as it permits more realistic and accurate assessment of anticipated environmental changes and gear the organisations for being proactive to predatory competition (Refer Exhibit 1.6). The strategic management process also ensures preparedness of companies for reacting to unexpected internal or external pressures and sustain them.

Exhibit 1.6 High-tech Deal in Engineering Construction Company

V.O. Swamy and Company Ltd. (VDS), which is in the field of international trading and engineering construction has signed a MOU with US based Innovative Design Development Inc. (IDD). The 50:50 joint venture, IDDINDIUM is set to offer design, development modeling, analysis, conversion, for companies in India and abroad using high-tech software tools like ANSYS, Mathematics and math CAD.

Source: *Economic Times*, March 2, 1999.

DEFINITION OF STRATEGIC MANAGEMENT

The strategic management or strategic planning encompasses long-range plans, new venture management, planning, programming, budgeting, business policy, etc. with greater emphasis on environmental scanning and forecasting and taking into account external and internal factors in formulating and implementing the plans.

The word strategy is derived from the Greek word "strategia" that was evolved during 400 BC. The word strategia meant science of guiding and directing military forces.

Today, strategic management is understood as a process of formulating objectives of an organisation and developing methods to achieve them. It is a process of designing a path and selecting one path, after due evaluation of various alternatives for reaching a goal. The objective can be in the form of a mission statement or may be clearly defined in the form of postulates. Strategic management is a science of choosing the alternatives from the designed and available courses. The managers have to decide on a process that will be most suitable to their conditions and that would enable them to achieve a desired position for their organisation.

The strategic management can be defined as follows:

Strategic management is the process of systematically analyzing various opportunities and threats vis-a-vis organisational strengths and weaknesses, formulating, and arriving at strategic choices through critical evaluation of alternatives and implementing them to meet the set objectives of the organisation.

It has been defined by Lloyd L. Byars as—Strategic management is concerned with making decisions about an organisations' future direction and implementing those decisions.

Alfred D.Chandler (1962) made a detailed analysis of various inter-relationships among environment, strategy, and organisation structure in 70 manufacturing firms in the US and defined strategy as, 'The determination of the basic long term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals'. It is pertinent to note here that Alfred D. Chandler has made reference to three basic aspects of strategic process;

i. Determination of basic long-term goals,

ii. Adoption of course of actions to achieve these goals, and

iii. Allocation of necessary resources for carrying out these goals.

Kenneth Andrews (1965) outlines business strategy definition as a method of describing the future position of a company, its objectives, purposes, goals, policies, and plans that may be required for guiding the company from its existing position to where it desires to be.

Andrews defines strategy as, 'The pattern of objectives for achieving these goals and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be."

Igor Ansoff (1965) in his book *Corporate Strategy* has defined strategy as, 'The common thread among the organisations' activities and product markets that defines the essential nature of business that an organisation was or plans to be in future.

'Professor William F. Glueck (1972) defines strategy as, 'A unified, comprehensive, and integrated plan, designed to assure that the basic objectives of the enterprise are achieved.'

Thus, we find that Strategic Management is a set of rules aimed at taking decisions for sustenance and growth of an organisation in a given environment.

The strategy covers the following aspects.

i. Exploring and determining the vision of the company in the form of a vision statement.

ii. Developing a mission statement of the company that should include statement of methodology for achieving the objectives, purposes, and the philosophy of the organisation adequately reflected in the vision statement.

iii. Defining the company profile that includes the internal culture, strengths and capabilities of an organisation.

iv. Critical study of external environmental factors, threats, opportunities etc.

v. Finding out ways by which a company profile can be matched with its environment to be able to accomplish mission statement.

vi Deciding on the most desirable courses of actions for accomplishing the mission of an organisation.

vii. Selecting a set of long-term objectives and also the corresponding strategies to be adopted in line with vision statement.

viii. Evolving short-term and annual objectives and defining the corresponding strategies that would be compatible with the mission and vision statements.

ix. Implementing the chosen strategies in a planned way based on budgets and allocation of resource, outlining the action programs and tasks.

x. Installation of a continuous compatible review system to create a controlling mechanism and also generate data for selecting future course of action.

EVOLUTION OF STRATEGIC PLANNING THINKING

The essence of planning is to organise in a disciplined manner, the tasks of an organisation that it has to perform and issues that it has to address and to maintain operational efficiency in an existing business. Thus, we see that planning is a complex process and cannot be simply structured empirically or by using quantitative techniques alone. An effective planning system has to primarily deal with some important dimensions, viz. being proactive to the changes in environment, responding to the changes in environment and deploying all the internal resources to improve the survival of a company in a highly competitive environment. To be knowledgeable about the external environment, which may be hostile or conducive, is very important for companies. Companies who sleep over the changes in environment may eventually perish.

The strategic thinking is a technique that enables firms to adapt to environmental changes. This awareness of being adaptive to the external environment is an active process with high creativity and tough decisions for profitability of the company and can be compared with the adaptive process of living beings with their environment.

The response of a company, when strategic thinking is internalised, transforms into various actions that the company has to take for enhancing the existing and long-term position of the company in a competitive environment. The action plans include totality of programs for major areas, hence it involves all the people of the organisation. The planning process must dovetail all the departments viz. marketing, sales, engineering, manufacturing, research and development, quality assurance, technology, finance etc. All functional departments of the organisation must respond to the challenges of the planning process. It should also be responsive to the individual talents and abilities of the departments, and people of the organisation and should take into account the organisational culture that is very vital for the planning process to succeed.

Planning for the day does not apply to the present organisation. The environment and the complex business situations have made it mandatory for organisations to plan for the future. Refer Exhibit 1.7 that compares strategic planning, thinking with opportunistic planning.

Exhibit 1.7 Nature of Formal and Opportunistic Planning

	Formal	Opportunistic
Purpose	Proactive in Nature and Seeks to Adopt as Per External Environment, Depending on Effectiveness and Efficiency Internal to Organisation	This Permits Flexibility for Quick Response to Unplanned Activities Based on Existing Capabilities of The Organisation
Scope	For Corporation	Concentrated at SBU* Level
Time	Systematic Planning which is Chronological and Datewise	Responsive to Emergencies, Opportunities and Threats
Factors	Formal Strategic Planning and Highly Structured	Opportunistic Planning

*strategic Business Unit

Various firms have different planning capabilities and the degree of planning competence must match with the degree of complexity of business. Based on the planning needs of the organisations, the planning stages can be enumerated as follows:

Budgeting and Financial Control

These are early manifestations of management systems and emerged about five decades ago in companies to manage multitudes of activities in which they involved themselves.

Budgeting is projection of revenues and costs for a one-year period. There is a master budget for a firm that covers all the activities that are important for the firm for its healthy development. A typical budget may consist of sales, production, inventory, direct materials, manufacturing overheads, expenses, administrative expenses etc. (Refer Exhibit 1.8).

Exhibit 1.8 Typical List of Various Budgets in a Company

- Income and Expense Budget
- Administrative Expense Budget
- Sales Budget
- Procurement Budget
- Manufacturing Budget
- Direct Labour Budget
- Direct Materials Budget
- Stock Materials Budget
- Overhead Budget
- Sundry Expense Budget
- Cash Flow Budget
- Capital Expenditure Budget

The productivity figures are estimated based on previous performances tabulated from historical data. The data of competitors is obtained from the financial reports of the firms that is published and distributed to the share holders. There has been many years of experience of various companies in their field and the technique has evolved after a lot of refinements in its present form. The technique has now evolved and matured for responding to management of cash, operational efficiency, cost reductions etc. It helps to decentralise the accountability for various functional groups at different levels.

With the advent of computers and information technology, the process of budgeting and financial control has become highly sophisticated. It is now highly structured and aims at the most efficient use of financial resources for meeting overall objectives. The sophisticated structuring resulted in defining the profit centers and responsible managers are posted to exercise their powers to meet profit targets. Other centers can be expense center, revenue center, investment center etc.

Companies usually make use of key variables, for example, growth, assets, and financial ratios in sales, orders, cost of sales, R&D expenditures etc. Some other companies may use some other variables for the purpose.

Organisations that are entirely dependent on budgeting and financial control measurements for their planning system are vulnerable to fall into myopic return-on-investment traps. They may be bothered about only immediate returns without really concentrating on the strategic growth of the organisation.

The risk is short-term high profitability at the expense of long-term development of the firm. Many organisations have realised their inadvertent weakening of the base by avoiding necessary expenditures that are essential for long-term standing of the firm. They preferred, in exchange, hefty quick return on investments.

The companies have realised over years that the return on investment figures should emerge from the strategic direction selected by companies, rather than these becoming ultimate goals themselves. The strategic commitments should be interwoven with needs of financial performance in short and long term. It should be clearly understood that a good financial performance is the result of the resources and development of technological aspects rather than only manipulating the return on investment index. One should work for the index rather than on the index itself. Hence, today's approach is that of strategic planning.

Companies are concentrating on second generation planning. The method lies in ensuring quality of strategy articulation. The top management, directors, and corporate planners have active role to play in strategic management.

Emergence of Long-Range Planning

A lot of progress towards comprehensive planning was done with introduction of long-range planning (LRP) in 1950's. The system of LRP consists of defining organisation-wide efforts to define various objectives, programs, budgets etc. over a span of time, usually a few years. Refer Exhibit 1.9 for process of formulation of a five-year plan, and Exhibit 1.10 for process of formulation of one-year plan.

The basic idea of long-range planning is to make an effort towards projecting the environmental trends over a period of time and thus establish stretched objectives and set guide lines for the people of an organisation to achieve them. The LRP was born in response to the extraordinary boom that occurred during the post World War II period. The growth of demand of goods was unprecedented and it was not enough for companies to rely on the one-year projection of requirements. The organisation of capacity expansions and arranging for corresponding financial resources became quite difficult for companies, when long-range planning was found to give managers a wider horizon for doing business.

Exhibit 1.9 Five-year Plan Formulation Flow-diagram

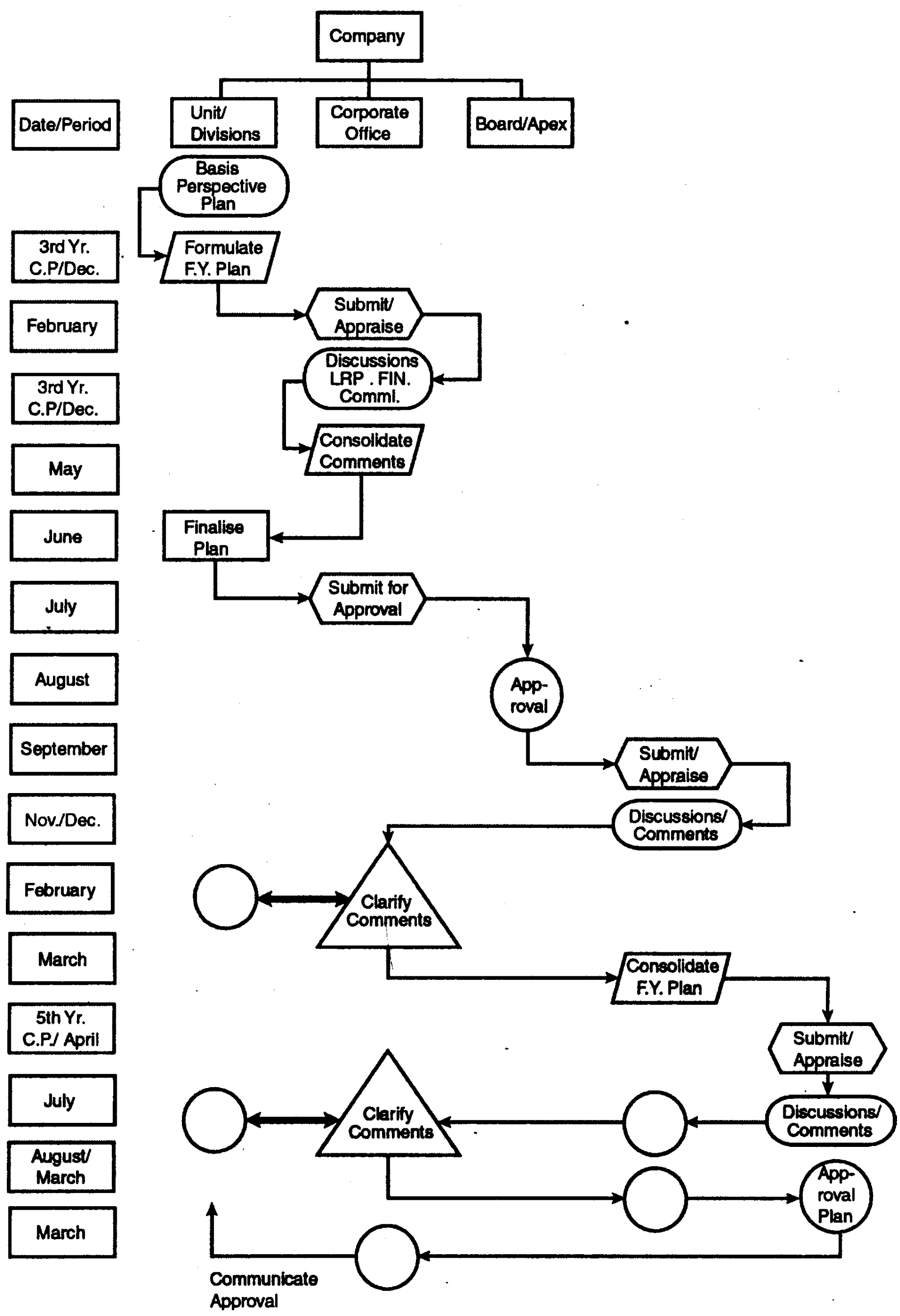
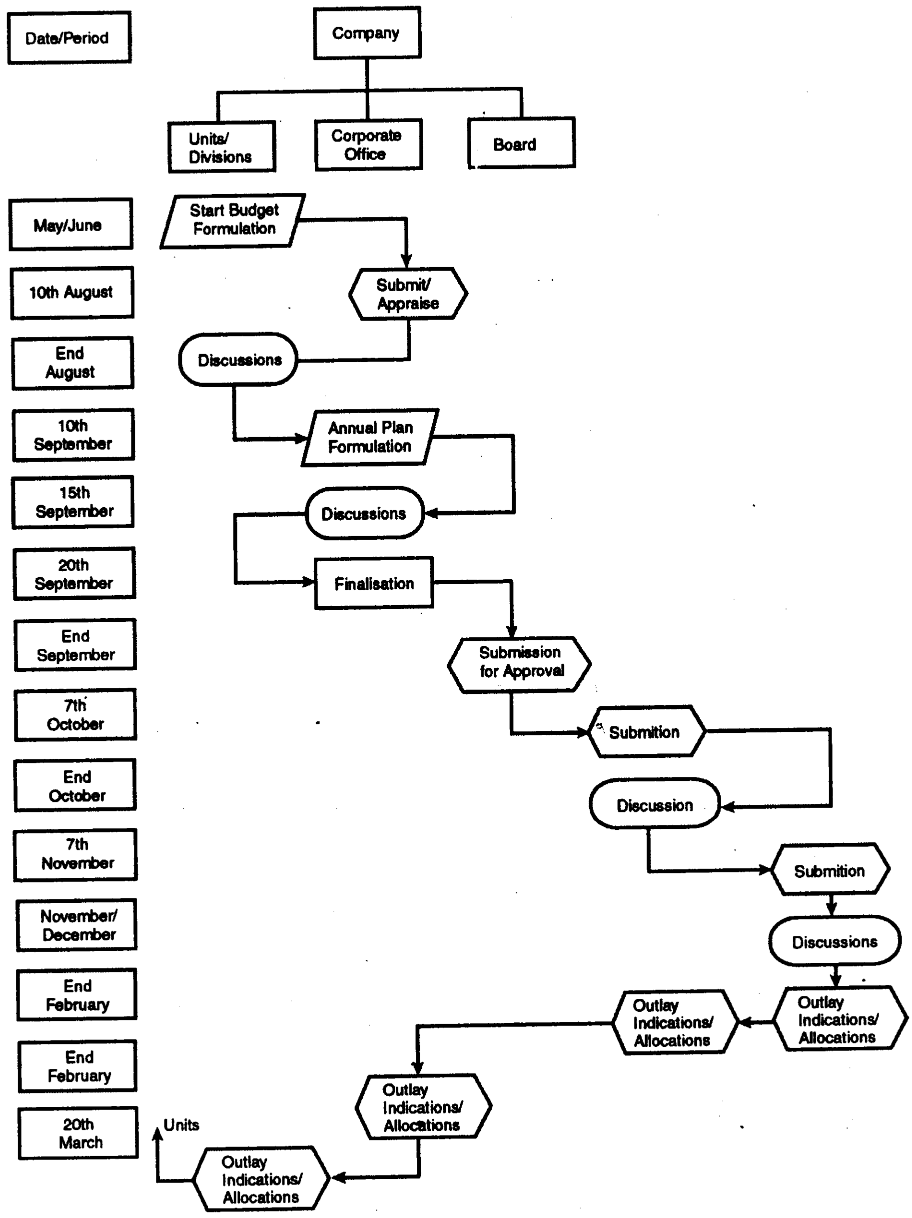


Exhibit 1.10 Annual Plan—Capital Funds Budget Procedure Flow-Diagram



LRP commences with multi-year sales forecast around which manufacturing, marketing, personnel, etc. are developed to meet the growing challenge. This shows commitment of an organisation towards growth in future. The plans of individual functions are then aggregated to build total financial plan, including investment decisions and usual budgeting and financial controls, but accounting for extended horizon of a long period of time.

The historical data of a period of five to six years is usually covered. The planning is usually done to cover a little more than what is reflected by the data. In long-range planning, the capital budgeting is of great significance. Capital budgeting uses the concept of pay back and discounted cash flows for evaluating the worth of capital expenditures. Long-range planning has many limitations and it was probably very useful after World War II due to steep growth of markets. The trends of markets were also fairly predictable as there was comparatively less business rivalry amongst competitors. Usually, a single firm was there in a single business. In the absence of these conditions, long-range planning becomes quite a useless activity.

Usually the sales projections and market behaviours will not be as estimated. The changes in business are quick and making projections for long periods of time may prove to be futile. Any effort to analyse the causes of deviations in sales projections may work out to be very complex. A more thorough understanding of the markets rather than merely sales projections is required, and for this, other underlying factors viz. economy, demography, attitudes, polity, etc. and scores of other significant factors must be considered.

To define the position of an organisation in a business, more rigorous analysis is required rather than analysis of sales forecasts alone. The future, off late, has become more uncertain. Future is no more smooth as projected by sales forecasts. LRP may also act as a trap for an organisation when it may think that it is making a sustained growth, whereas it may merely be driven by an external environmental factor, and when this factor, ceases to exist due to some imminent cause, the organisation may be left looking for ways to survive the onslaught. Long-range planning may be simpler for a single product company, but for companies having multiplicity of products it may be difficult to even visualise LRP taking care of all the products. The problems are also in resource allocation in LRP as it tends to confuse the planners towards overall focus of the organisation. It is easier to handle a project in isolation but to evaluate its effect in line with the total vision of organisation may be quite difficult.

NEED FOR STRATEGIC MANAGEMENT

Today, we know that business is becoming more complex due to rapid changes in environment. It is becoming increasingly difficult to predict the environment accurately. The internal and external environments of organisations are now driven by multitudes of forces that were hitherto non-existent. Earlier the changes in technology were not so rapid but today the information from all over the globe is pouring in through the computers. The world in fact has shrunk. This has created fierce competition as the customers and stake holders have become more aware of their rights. They have several alternatives to choose from at their disposal. The customer now looks for real value for his money. He has become aware of quality and cost ratios and diligently selects the products. He is now more demanding for better service in the least possible time. This has brought in new rules of business that companies all over the world are evolving through their experience. The obsolesce has become so rapid that the time when one is in the process of buying a computer it might have already become obsolete in some part of the globe. The number of events that affect domestic and world market are now far too many and too often. Over reliance on experience in such situations may really work out to be very costly for companies. Reliance has shifted to more creativity, innovation and new ways of looking at business and doing it in novel ways. The earlier concepts of having highly functionalised departments and developing specialisation of labour is losing its credibility. The organisations are becoming more responsive, flexible, and adaptable to changing business situations. In such environments that are charged with high level of competition, developing competitive edge for survival and growth has become imperative for companies.

The need is now to distinguish between long-range planning and strategic planning, (Refer Exhibit 1.11). The importance of strategic management in setting the directions for growth of organisations is being increasingly realised these days. The evolution of objectives after setting directions for growth of organisations has become necessary. The technique of strategic management is used as a major vehicle for planning and implementing major changes in organisation. The implementation of the strategic plans needs good teamwork and understanding of the concept at grass root

Exhibit 1.11 Difference between Long-range Planning and Strategic Planning

	Long-Range Planning	Strategic Planning
Focus	Present	Growth
Objective	Annual Profits	Future Profits and share
Constraints	Present Resources Environment	Future Resources Environment
Rewards	Efficiency, Stability	Development of Future Potential
Risks	No growth	Slow Process, Requires Effort
Information	Present Business	Present Business, Future Opportunities, threats etc.
Organisation	Bureaucratic/Stable	Entrepreneurial/Flexible
Leadership	Conservative	Creative
Problem Solving	Reacts, Relies on Past Experience Low Risk	Anticipates, Discovers Creative Approaches High Risk

level and organisations today are making concerted efforts in this direction. The cultural dimensions of organisations have acquired importance of strategic plans, and organisations are taking pains to understand the impact of culture on business.

DIMENSIONS OF STRATEGIC MANAGEMENT

It is important to understand that some key decisions in any organisation are vital for strategically managing the business. Various issues that the management faces can be classified into following dimensions.

Top Management Decisions on Strategic Issues

To establish the vision of the firm, stating of corporate objectives, and strategic thrust areas, defining a comprehensive corporate philosophy and values, identifying the domains in which an organisation would operate, learning and recognising worldwide business trends, and allocation of resources in line with corporate priorities, are some of the key areas wherein top management of organisations take decisions.

Strategic Issues for Sharing of Concern and Resources

To meet certain specific needs of certain customers, use of common upgraded technologies by certain business units, deployment of people, physical assets or money from internal or external sources and to achieve economics of scale in deployment, certain decisions may be taken by the management.

Strategic Issues Likely to Have Long Term Impact

Strategic decisions for implementing a course of action have broad implications and long-term ramifications and the people of an organisation have to commit themselves to the decisions and plans for a long period of time. Once a firm takes strategic decisions and implements the action programs, the impact is seen slowly on its competitive image and the advantage tied to the particular strategy start pouring in. The companies become known in certain markets, products, or technologies or the decisions may adversely affect the previous progress.

In today's business world, where changes are by leaps and bounds, some organisations may decide for radical changes through re-engineering of their business processes to gain strategically better position.

Strategic Directions are Futuristic

Strategies are essentially for the future. Strategic decisions are taken based on forecasts that are in turn based on available data on trends. The managers involved in strategic planning concentrate on developing projections that would take the company to better strategic position. The companies thus become proactive rather than being reactive to business situations.

Strategies have Multi-Functional and Multi-Business Effects

Every company has several business units. Strategic decisions are coordinative in nature among all the business units of the company. Many strategic decisions on product mix, competitive edge, organisational structure etc. affect various departments and functions that may be classified as strategic business units (SBUs). Each of these units get affected by the decision taken at the top level, regarding allocation of resources and deployment of personnel etc.

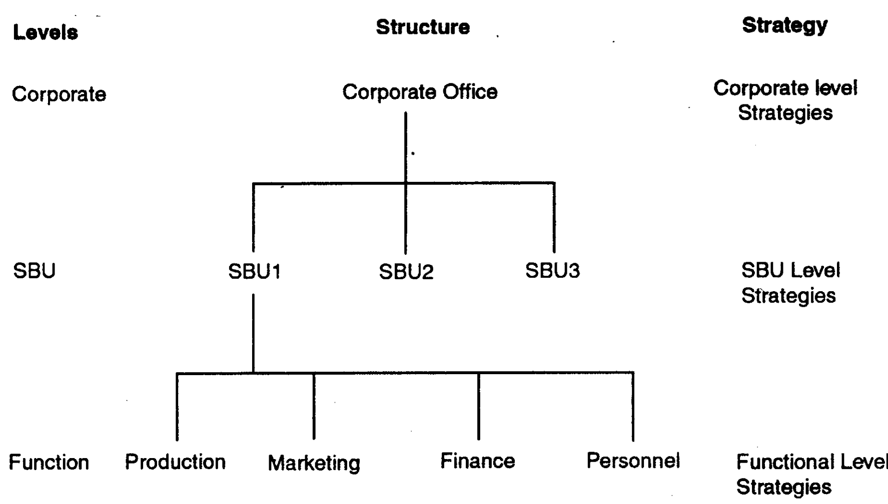
Strategies are Defined Based on Study of Environment

The organisation culture internal to the organisation and also the external environment must be thoroughly scanned and studied to decide on strategies. The interaction between the organisations and the external environment affects both of them. The organisation tends to change the environment and the same environment makes an impact on the organisation. The firms have to define their strategic position with regard to the environment and decide strategies that will take it to the desired position. The firms are part of the system, where customers, stake holders, competitors etc. exist and the firm cannot remain insulated from these determinants of the external environment.

LEVELS OF STRATEGIES

The strategic planning process culminates into formulation of strategies for the organisation. A business strategy must contain well-coordinated action programs aimed at securing a long-term competitive edge and which should be sustained by the company. (Refer Exhibit 1.12.)

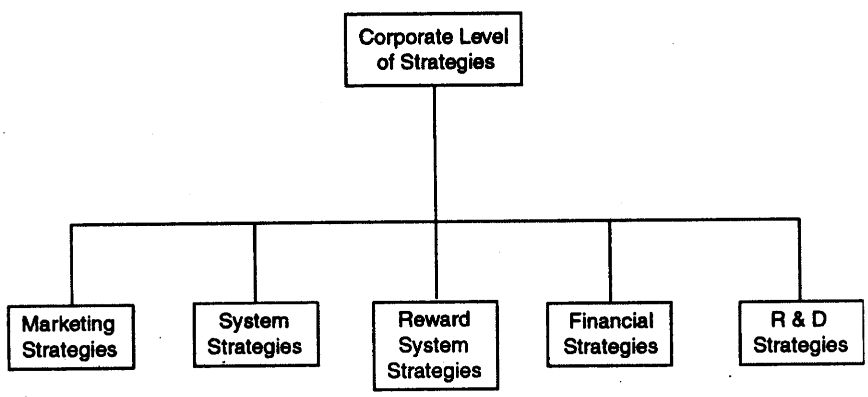
Exhibit 1.12 Levels of Strategies



Corporate Level

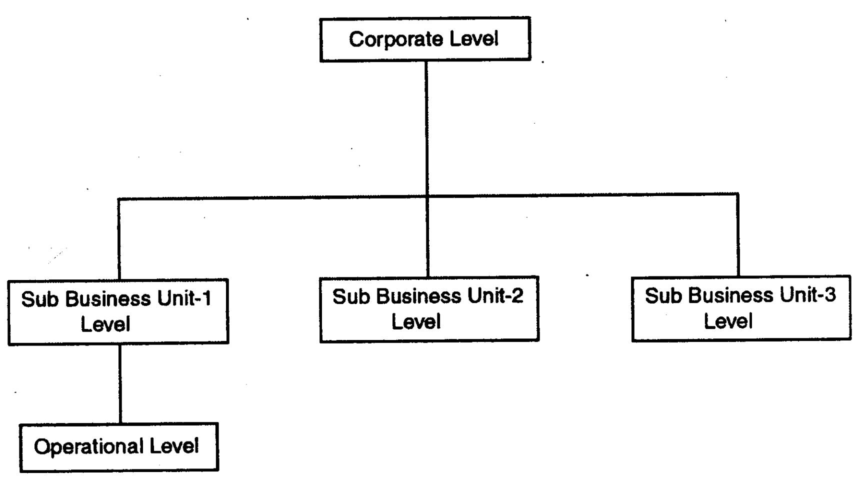
In an organisation, there are basically three levels. The top level of the organisation consists of chief executive officer of the company, the board of directors, and administrative officers. The responsibility of the top management is to keep the organisation healthy. This implies that their responsibility is to achieve the planned financial performance of the company in addition to meeting the non-financial goals viz. social responsibility and the organisational image. The issues pertaining to business ethics, integrity, and social committment are dealt with, at this level of strategic decisions. The corporate level strategies translates the orientation of the stakeholders and the society into the forms of strategies for functional or business levels (Refer Exhibit 1.13).

Exhibit 1.13 Corporate Level Strategies



By using portfolio approach, a set of natural and generic strategies are generated that must be considered by each business group, depending on their position in the industry attractiveness and competitive strength dimensions. This is the level where vision statement of the companies emerges. Exhibit 1.14 shows typical levels of strategy-making in an organisation.

Exhibit 1.14 Levels of Strategy-making



Business Level

This level consists of primarily the business managers or managers of Strategic Business units. Here strategies are about how to meet the competitions in a particular product market and strategies have to be related to a unit within an organisation. The managers at this level translate the general statements of direction and intent churned out at corporate level. They identify the most profitable market segment, where they can excel, keeping in focus the vision of the company. The corporate values, managerial capabilities, organisational responsibilities, and administrative systems that link strategic and operational decision-making level at all the levels of hierarchy, encompassing all business and functional lines of authority in a company are dealt with at this level of strategy formulation. The managerial style, beliefs, values, ethics, and accepted forms of behaviour must be congruent with the organisational culture and at this level, these aspects are diligently taken care of by strategic managers.

Operational Level

Planning alone cannot create massive mobilisation of resources and people and can never generate high quality of strategic thinking required in complex organisational context. For this to happen, the planning should be carefully dovetailed and integrated with significant administrative systems viz. management control, communication, information management, motivation, rewards etc. It is also vital that all these systems are supported by organisational structure that defihe various authority and responsibility relationships, among various members of the company and specifically at operational level. The culture of the organisation should be accounted for, and these systems should find adaptability with the culture of the organisation.

Exhibit 1.15 Interaction of Various Functions

The managers at this level of product, geographic, and functional areas develop annual objective and short-term strategies. The strategies are designed in each area of research and development, finance and accounting, marketing and human relations etc. The responsibilities also include integrating among administrative systems and organisational structure and strategic and operational modes and seek for congruency between managerial infrastructure and the corporate culture. Exhibit 1.15 shows the interaction of various functions for deciding strategies at the operational level.

CHARACTERISTICS OF STRATEGIC DECISIONS

The three levels of strategic decision have varying characteristics due to the varying responsibility and authority at different levels of management functioning. (Refer Exhibit 1.16).

Exhibit 1.16 Charateristics of Corporate, Business and Functional Level Strategies

Characteristic	Corporate Level	Business Unit Level	Functional Level
Nature	Conceptual	Conceptual but related to business unit	Totally operational
Measurability	Non-measurable	Measurable to some extent	Quantifiable
Frequency	Large spans 5-10 years	Periodic	Annually
Adaptability	Poor	Average	High
Character	Innovative and creative	Action-oriented	Totally action oriented
Risk	High	Moderate	Low
Profit	Large	Moderate	Low
Flexibility	High	Moderate	Low
Time	Long range	Medium range	Short range
Costs Involved	High	Medium	Low
Cooperation needed	High	Medium	Low

The nature of decisions taken at corporate level give a vision to the organisation. The decisions taken are visionary in nature and hence are highly subjective. The vision of a company evolves after a lot of deliberations among the directors who decide that how their company would be known after a long period of time, say after ten to fifteen years. The decisions at this level are therefore vital for selecting the directions of growth of a company. Since it is very difficult to foresee what would happen to a company after a long period of time, the decision essentially should have built-in flexibility as these would have far-reaching consequences on the operations of the company. The decisions at this level also involve greater risks, costs, potential profits etc. The characteristic strategies at this level may include the following in a typical organisation.

- Business scope and an expression of competitive leadership.
- Identification of product market segments.
- Corporate strategic thrusts and planning challenges relevant to the business unit.
- Internal security at the business level that includes identification and evaluation of critical success factors and assessment of competitive position.
- Environmental scan at business level and identification of product markets and industry attractiveness.

Formulation of business strategy is a set of multi-year broad action programs.

At the functional level, the decisions involve action-oriented operational issues. Essentially these are short-term type and hence periodically made. They reflect some or all part of the strategy at corporate level. These decisions are also comparatively of low risk and involve lower costs as the resources to be used by them are from the organisation itself. The company as a whole is rarely involved in these decisions. They are more concrete, clear, simple to implement and do not disturb the ongoing processes of the company. The decisions at this level are more critically examined, in spite of being less profitable.

NEED FOR FORMALITY IN STRATEGIC MANAGEMENT

The degree to which the membership, responsibilities, authority, functions, and decision-making is specified and involved is called formality. The degree of formality has a direct bearing on cost, completeness, accuracy, success, and growth of strategic management in any organisation. All companies do not have the same degree of formality and it varies with the internal and external environment of the company (Refer Exhibit 1.17).

The need for formality in strategic management arises in the companies due to their urgent need for succeeding in their strategic plans. The strategic plans are in turn guided by the size of the organisations, the dominant management styles being followed, the nature of environment, its business processes, nature of problems that the company faces and the requirement of the level of detailed planning. The companies of entrepreneurial nature have a single individual at the apex level and he controls the entire functioning of business. The strategic decisions in such companies are limited for a small number of products and services and are informal and intuitive with very limited scope. On the contrary, companies having multitudes of products and services that are individually headed by chief executives, have written down systems and strategies interwoven in the very fabric of the organisation. Usually such companies use the planning mode, however, adaptive mode is being used by the medium-sized companies that operate in a comparatively more stable environment.

Exhibit 1.17 Degree of Formality

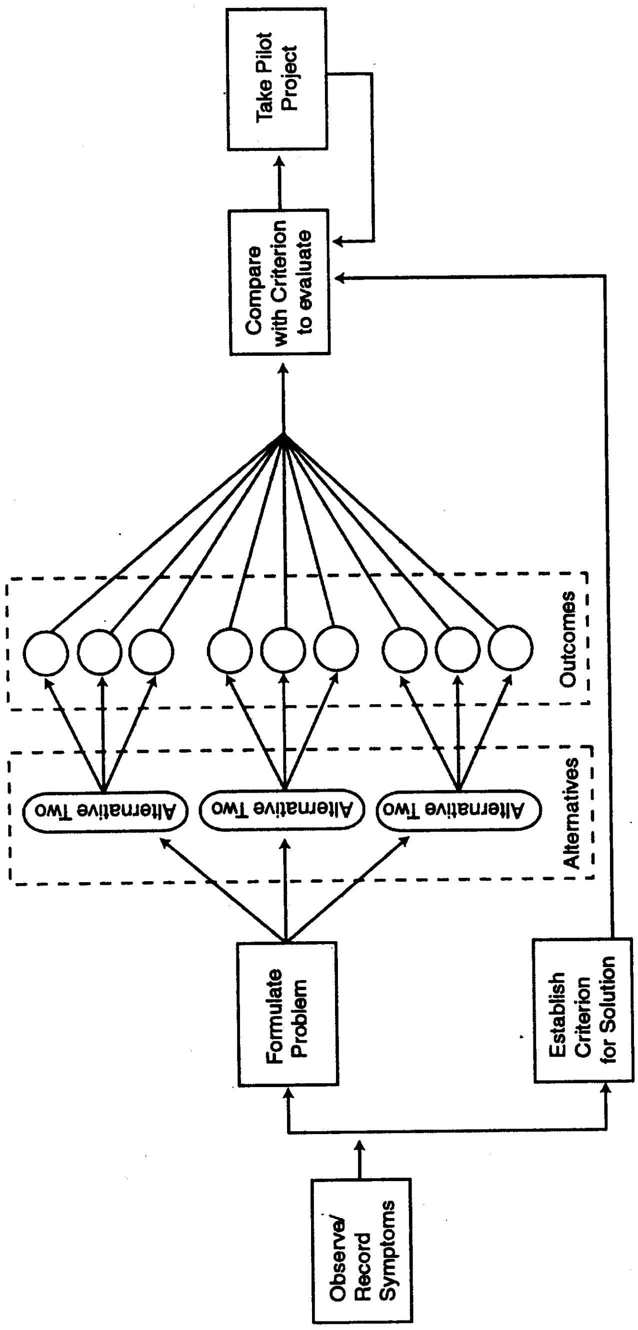
Dimension	Factor	Likely Characteristic
Management and style	Policy matter	More formality
	Democratic	Less formality
	Autocratic	More formality
	Thinker	Less formality
	Planning expert	Less formality
Environment	Stable	More formality
	Turbulent	Less formality
	Absence of competition	Less formality
Internal processes	Long lead time	More formality
	Short cycles	Less formality
	Labour and capital	More formality
	Intensive integrated processes	More formality
	High technology	More formality
	Facing short range problems	Less formality
	Coordinative work Training	More formality
		Less formality

The need for formality in strategic management in large organisations is vital for its success and the management must formalize the process.

ISSUES IN STRATEGIC DECISION-MAKING PROCESS

It is extremely difficult to clearly define the manner in which strategic decision is arrived at. The process is too complex to comprehend as it cannot be easily analysed. It is based on complex mental process, where many factors are simultaneously considered. Hence, making a model of a decision process is quite difficult. Also, it is increasingly felt that dimensions, not very important in one case, were really vital in some other case, however, we can to a large extent understand the process if we consider various issues involved in the decision-making process. A typical decision-making process shown is Exhibit 1.18.

Exhibit 1.18 Process of Decision-making



Decision-making Criteria

The criteria for making decisions is governed by the objectives that the decision maker attempts to lay down. These objects give countability or measurability to the decision-making and can also indicate the quality of decision-making, its efficiency, and effectiveness. The criteria can be maximisation of a specific variable. The aim is to achieve the objectives at their maximum level with available resource. Some of the examples can be return on investment or value for money spent etc. When the concept is of satisfying criteria, the objectives are set such that they can be achieved satisfactorily and realistically. In the concept of continual evolving, the objective is to move ahead with consensus building. The consensus is reached among the group and the company moves ahead to accomplish the objectives through logical steps that are incremental in nature. There is rarely a quantum jump.

Rationale

Rationality in decision-making process implies presence of logical reasoning in arriving at acceptable decisions. A number of alternatives may be created and by paired comparison or through elimination process, strategic alternatives are arrived at. Usually maximisation refers to maximisation of profits, however, in other circumstances, it may refer to maximization of some other desirable attribute viz. value, return on investment etc. A rationale decision-making process must consider all the aspects of satisfying maximisation and continually evolving the vital factors and the nature of design requirements of the process and build a rationale of the decision process.

Creativity

Creativity and innovations bring in most unusual ideas. The alternatives generated may lead to break-through ideas. Companies tap the creativity of their people through various techniques viz. brain storming, attribute listing, Gorden technique etc. to generate alternative strategic options. Various novel ways of doing things are exposed and the objective may be achieved in an exceptional manner. It is vital for managers who are in the field of strategic management to develop creative ways of lateral thinking and looking beyond the obvious to come up with break-through ideas. The process involves short-listing of ideas and evaluating workable strategies with weightage scores.

Variability

No two people think alike in a given business situation. The two managers who are in the process of strategic decision-making will usually arrive at different decisions. This is often observed in real life cases also, where two managers are found to have a honest difference in opinion. The difference may arise due to different perception of the problem itself. Additionally, the two managers may differ in their approach due to their experience, training, mind set etc. The difference observed in decision-making is due to the variability in nature. There can be no accurate mathematical model to arrive at exact solutions and hence the factors of variability is usually present in the decision-making.

Personality or Individual Factors

The age, experience, training, qualification, intelligence, values, etc. play a vital role in decision-making and quality of decision. Some of these factors may positively affect decision-making in a given situation, whereas others may have a negative effect. The creativity tapers down with increase in age. Similarly the managerial style of a person may also affect his decision-making. Different styles lead to varying degree of information availability and its assimilation, thus affecting the decisions. The values, ethics, beliefs etc. of a person also reflect on decisions taken by him.

Group Dynamics and Individual Decision Making

Group dynamics affects the decision-making process and the decision-making is generally through consensus. The personal factors may not be in tune with the entire group and hence differences are expected to arise in decision-making. The availability of information to the group and individual is different, which creates variability in decision-making. When groups are small individual decision-making thrives, but as the groups become large, the need for acceptance of ideas by the group becomes more difficult, and hence arriving at consensus is found to be a little more complex. Some organisations operate in an unique environment and have special characteristics of a group that affects the decision-making as in case of a hospital or hotel etc.

DECISION - MAKING APPROACHES

Each organisation has its own objective, structure, environment, business etc. and hence it has its own unique way of strategic decision-making. However, generally speaking, various organisations can be broadly classified to have the following approaches in strategic decision-making. The manner in which decisions are taken, have been studied by various management experts and categorised as follows:

Intuitive Approach

Intuition defies logic and in organisations that are owned by families or a single person who controls the business, decisions are sometimes taken, based on intuition alone. The person in-charge acts as a visionary and he anticipates the future and accordingly he takes decisions on strategic issues vital to the company. The entire thinking process is implicit and the logic is not evident to the people around. The person, based on his values, experience, age, exposure to the facts, environment etc. takes decisions that are strategically important for the organisation. Most of the family-owned small business groups follow this approach. In some cases, the decisions taken may not appear to be of good quality, however, there have been occassions when such an approach has led to quantum jumps in growth of some of the companies.

Opportunistic Approach

Some companies are in constant search for opportunities to maximise their profits. They do not leave any opportunity for taking benefit and are constantly in process of identifying and creating new opportunities for the benefit of the organisation. The strategies adopted by these companies consist of diagnosing the opportunities, generating alternatives to fully exploit them for the benefit of the organisation, analyzing the consequences of each alternative and implementing alternatives that may be best-suited to meet the objectives of the company.

This approach of strategic management is adopted by various forms of organisations involved in strategic decision-making, including family and small business. This approach is quite difficult for large organisations, due to their built-in inflexibility. Smaller organisations have better flexibility to make quick use of opportunities viz. a bad harvest, or breaking out of an epidemic, or untimely rain, or rise in price of a commodity, or change in government rule etc.

Incremental Approach

In this approach, the strategic decisions are not dramatic in nature but they are based on a small incremental approach. The changes suggested are not radical in nature, where the entire structure of on organisation may require complete change, and systems, procedure, and methods etc. may have to be evolved from the scratch. On contrary, the approach is to select a few alternatives that marginally differ from one another and the choice amongst them is made through an interactive process, thus continuously redefining the improved strategic posture based on feedback. In very large organisations, where several business units operate, the strategic approach of each of these units may be different and to a varying degree of intensity and the end result is the negotiated settlement between these interest groups. In public sector companies that operate under similar internal and external environment, their strategic approaches are incremental in nature.

Adaptive Approach

Various changes take place in the internal and external environment of any organisation and they adapt themselves to these changes. The way these changes are perceived by the organisations is different. The changes sometimes are very fast, and the organisations can be reactive to these changes. The reactions can also be very fast, depending on the size and structure of the organisations. The adaptivity of organisations to changes therefore varies, depending on various factors. When the business environment is uncertain, the organisations have no choice but to be adaptive and at greater speed, and the approach in such situations is termed as adaptive approach.

Structure Approach

Due to formation of highly functionalised departments and set procedures in organisations, where clearly defined organisational structures exist, the approach to strategic decision-making is also essentially highly structured and formalised. The job of strategic planning and decision making is assigned to a specialised group that deliberates over various aspects of business and makes strategic decisions. Such organisations that follow structured approach tend to follow the text book methods to a large extent, the methodology adopted is very rigorous in nature and also time-consuming, but with the help of an expert, the approach becomes easier for analysis and implementation.

ROLE OF STRATEGIC MANAGERS

Strategies are developed by strategic management teams. The process for large organisations is very complex and it cannot effectively take place unless people at various levels are made to participate to arrive at meaningful conclusions. The team consists of managers from all the levels viz. corporate, business, and functional level. In addition to the data from external sources, the data from within the organisation is generated through participation of company-planning staff and lower levels viz. Junior managers, supervisors, and workers as the data generated for implementation of strategies is very vital for any company. The CEO of the company has to be essentially present including his team of other directors, business unit heads and heads, of functional groups.

The strategic decisions taken by the company are key to its survival and progress, and make a tremendous impact on the company and need widespread and large commitments of resources of the company, hence the presence of top managers in these teams is necessary.

These persons are often designated as General Manager, Managing Directors, Presidents, Vice-Presidents, Executive Vice-President etc. The traditional view of the General Manager is that he is a reflective thinker who maps strategy, creates design of an organisation and roles for people through the tactical plans to achieve the goals, using his vast experience, knowledge and insight, and sets goals. He is considered to be a strategist, planner, leader, and is aware of various human, technical, economic, and political needs of the environment of the organisation. He has to fit various units into a jig-saw puzzle through ever-changing circumstances.

The experience shows that CEOs have to simultaneously handle several factors, activities etc. on a schedule that rarely give him time to contemplate.

The process of intuition and judgement, depending on his perception, becomes the major and preferred decision-making mode.

Mintzherg's list of roles gives us an example of different roles that the CEO plays in an organisation and these are termed as interpersonal, informational, and decisional roles. As the head of the organisation the CEO has to perform numerous functions, that are legal and social in nature. While performing these functions the CEO has to keep the strategies of his organisation in mind. While staffing, training, motivating, directing, and performing several other functions, he has to keep the strategic directions process itself is important for managers. Planning book is merely a by-product. It is a vital experience for managers when they involve themselves in communicational efforts, multiple and multidirectional interpersonal negotiations, needs of understanding and articulating basic issues that affect business and their personal involvement with issues and questions faced by business.

RISKS OF STRATEGIC MANAGEMENT

Whenever a process is formalised, conditions are created that impose a bureaucratic burden on the functioning of an organisation. This stiffles creativity, innovation, and new knowledge that may otherwise be free. There is a risk of losing track of primary objectives for which the entire activity was started and get lost in the bureaucratic jungle of hierarchies. An activity may turn into a game of numbers, making people sluggish on strategic alternatives that may be truly the central theme of the entire exercise. Strategic management is repetitive and time-consuming activity and managers may soon lose interest due to monotony. The entire activity may start with a big bang and with an exhilarating challenge, creating a lot of enthusiasm and commitment but soon, this may fade away and what would be left is a bureaucratic routine.

There are several ways by which one can stand against the perils of such situations. One of the approaches could be to avoid the monotonous audits every year and instead rely on comprehensive and extensive audits after a gap of about two to three years. Meanwhile, simply upgrading and toning of the strategies may also be carried out. It is wise to select a new planning theme every year, like value management, international business, process technology, business processes, value to customer etc., and it should be made inevitable for key managers to pay due attention to these key issues. Planning units deserving more attention should also be identified and given to break the monotony of bureaucracy. Innovations and creative thinking processes must be imbibed in the cultural fabric of the organisation practicing strategic management, and doors must be kept open for people to contribute for radical and dramatic changes or incremental changes that would enhance the pace of achieving strategic objectives.

Managers must also be trained to skillfully spend time in strategic management activities without affecting their operational responsibilities. Strategic management approach must be tried to be integrated in culture of company. This is quite difficult due to the requirement of formality, however, it is definitely required to be accomplished. It is often found that managers who formulate strategies are not involved in the process of implementation and giving inputs required for the same. This shrinks their responsibility. Strategic management, thus, should be done as a way to integrate all managerial capabilities within the corporate culture and values to assure strategic thinking at all levels in a company.

We know that organisations are fragmented into highly functional units named as departments and hence the strategic processes also have this element of fragmented thinking and is often more intuitive. Managers proactively guide many actions and events to incrementally reach towards strategies embodying many principles of formal strategic planning. The top brass of the organisation that has the sense of vision, maintains shared concerns by managers in focus and permits a meaningful negotiation to set up a long-term objective. Thus, grand design and incremental thinking can be effectively synergised to meet the challenges.

The managers may become frustrated and disappointed due to unattained expectations and hence they must be trained to anticipate, minimise, and constructively deal with such situations. Managers misunderstand that their association and acceptance of their plans will fetch them all the associated rewards. Managers must be trained to negate such expectations, as successes may raise their expectation too high and failures may make them feel highly frustrated.

Earlier, in India (1950–80), the model of development was based on the following factors:

i. Need of permits and industrial licenses that resulted in a set back to entrepreneurship and initiative of people due to widespread corruptive practices that had taken roots. The government undertakings in some cases were forced to sell goods at prices lower than the cost price. The business environment lacked competition.
ii. Emphasis on self-reliance, thus making the Indian industry insulated from the world. Widespread eruptions of manufacturing units that made crude products, copying designs of communist countries because it was easier for them.
iii. The investments were that disproportionate to the their needs and hence uneconomical and self-defeating systems came into being.
iv. Large investments in public enterprises without accountability and autonomy that led to monopolies.
v. Spiralling taxation structure lead to evolution of parallel economy. The tax evasions were of a very high magnitude.
vi. The tariff protection that led to non-competitiveness.
vii. Very low foreign investments came due to complicated procedures and control.

It became inevitable for the country to change its mixed economy model, due to changes that affect the globe and instead the doors of Indian economy were gradually opened up for the global players.

Some of these reforms are:

i. Permitting inflow of direct investments
ii. Public sector reforms and making them to compete with global players
iii. Labour laws reforms
iv. Establishment of private banks

v. Financial sector reforms

vi. Tax Reforms

vii. Capital market reforms

viii. Currency Reforms

ix. Delicensing of industrial investments

x. Trade reforms etc.

QUESTIONS

1. What do you understand by business planning? Discuss various stages of planning.
2. Discuss evolution of organisations and today's Indian business scenario with reference to globalisation.
3. How do you value strategic management? Do arrive at a suitable definition of strategic management process.
4. What is strategic planning thinking? Discuss various aspects of budgeting and financial controls and emergence of long range planning?
5. Why is strategic planning necessary and what is the need of strategic management in the present context?
6. What are the various dimension of strategic management? Discuss various issues that the management faces during strategic management process?
7. What are the various levels in your opinion in which strategies should be formulated and implemented?
8. Discuss various characteristics of strategic decisions and issues involved in strategic decision-making process.
9. What is the need for formality in strategic management.
10. What are the various decision-making approaches used in strategic management?
11. Discuss role of strategic managers.
12. What are the benefits and risks of strategic management?
13. Evaluate the need for strategic management in your organisation.
14. What do you understand by the word strategy?
15. Discuss today's business condition and evaluate whether strategic management can help the situation.

CHAPTER

2

STRATEGIC MANAGEMENT PROCESSES

Organisations devise various methods for strategy formulation. The strategic management formulation and implementation methods vary with product profile, company profile, environment within and outside the organisation, and various other factors. Large organisations which use sophisticated planning use detailed strategic management models whereas smaller organisations where formality is low use simpler models. Small businesses concentrate on planning steps compared to larger companies in the same industry. Large firms have diverse products, operations, markets, and technologies and hence they have to essentially use complex systems. Inspite of the fact that companies have different structures, systems, product profiles, etc., various components of models used for analysis of strategic management are quite similar.

The strategic management consists of different phases which are sequential in nature.

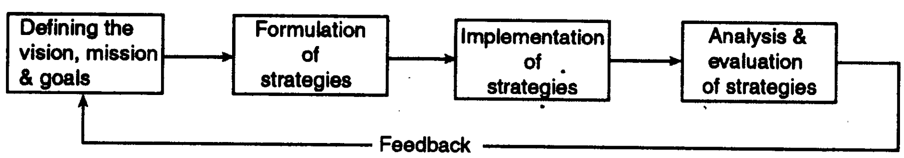
PHASES

There are four essential phases of strategic management process. In different companies these phases may have different nomenclatures and the phases may have a different sequences, however, the basic content remains same. The four phases can be listed as below.

i. Defining the vision, business mission, purpose, and broad objectives.
ii. Formulation of strategies.
iii. Implementation of strategies.
iv. Evaluation of strategies.

These phases are linked to each other in a sequence as shown in Exhibit 2.1. It may not be possible to draw a clear line of difference between each phase, and the change over from one phase to another is gradual. There may also be retracing to a phase and going back. The next phase in the sequence may gradually evolve and merge into the following phase. An important linkage between the phases is established through a feedback mechanism or corrective action. The feedback mechanism results in a course of action for revising, reformulating, and redefining the past phase. The process is highly dynamic and compartmentalisation of the process is difficult. The change over is not clear and boundaries of phases overlap.

Exhibit 2.1 Phases of Strategic Management Process



ELEMENTS IN STRATEGIC MANAGEMENT PROCESS

Each phase of strategic management process can be viewed to be consisting of a number of elements, which can be clearly defined with input and output relationships. The steps have logical connectivity and hence these are sequential. Some authors have defined twelve steps and others have included lesser number of steps, however, these steps can be illustrated with the help of a flow diagram. The following discrete steps can be considered as comprehensive.

i. Defining the vision of the company.
ii. Defining the mission of the company.
iii. Determining the purposes or goals.
iv. Defining the objectives.
v. Environment scanning.
vi. Carrying out corporate appraisal.
vii. Developing strategic alternatives.
viii. Selecting a strategy.
ix. Formulating detailed strategy.
x. Preparing a plan.
xi. Implementing a strategy.
xii. Evaluating a strategy.

STRATEGIC MANAGEMENT MODELS

Some of the strategic management models are shown in Exhibits 2.2a, 2.2b, and 2.3. We will discuss each of the elements of strategic management model.

Exhibit 2.2a Strategic Management Model

Company vision statement
Company mission statement
Company profile
External environment and internal environment
Evolution—strategic choices and selection
Long-term objectives
Grand strategy
Annual objective
Functional strategy
Operating policies
Institutionising Strategy
Control and evaluation

Exhibit 2.2b Decision of Management

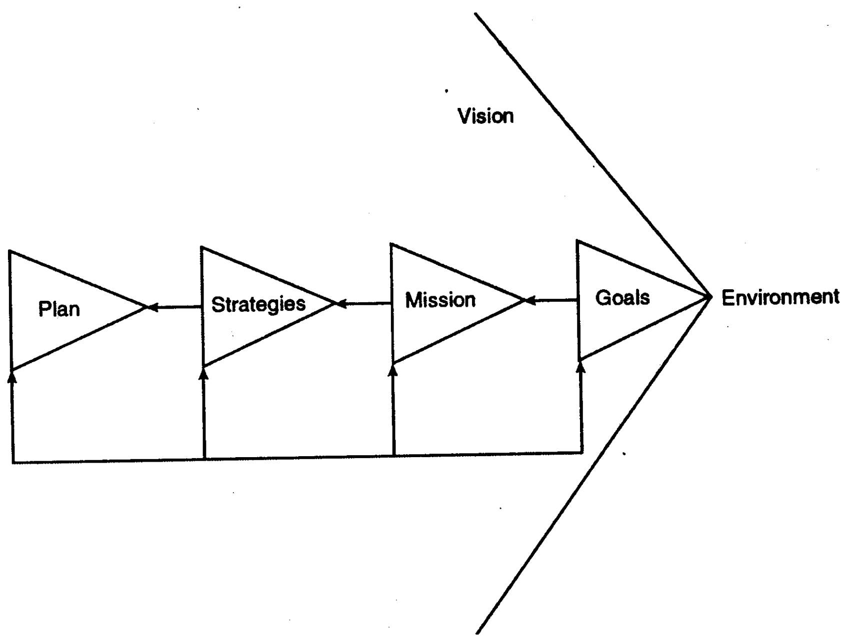


Exhibit 2.3 Comprehensive Model of Strategic Management

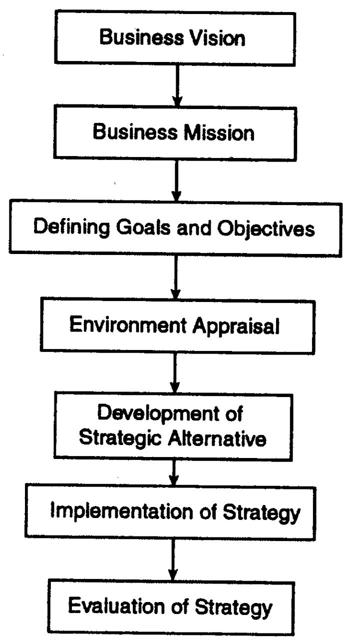
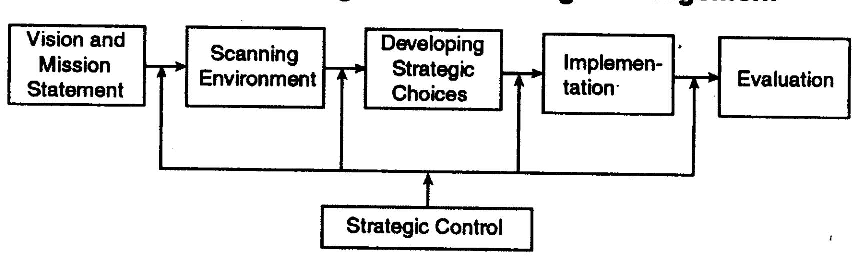


Exhibit 2.4 Working Model of Strategic Management



Vision of the Company

Vision of a company is rather a permanent statement articulated by the CEO of the company who may be Managing Director, President, Chairman, etc. The purpose of a vision statement is to:

i. communicate with the people of the organisation and to those who are in some way connected or concerned with the organisation about its very existence in terms of corporate purpose, business scope, and the competitive leadership.

ii. cast a framework that would lead to development of interrelationships between firm and stakeholders viz. employees, shareholders, suppliers, customers, and various communities that may be directly or indirectly involved with the firm.

iii. define broad objective regarding performance of the firm and its growth in various fields vital to the firm.

Vision is a theme which gives a focussed view of a company (Refer Exhibit 2.5). It is a unifying statement and a vital challenge to all different units of an organisation that may be busy pursuing their independent objectives. It consists of a sense of achievable ideals and is a fountain of inspiration for performing the daily activities. It motivates people of an organisation to behave in a way which would be congruent with the corporate ethics and values.

Exhibit 2.5 Statements of M/s Anupam Industries Ltd.

Mission

To deliver competitive product and serviçes of global standard that delights customer through:

- Continuous technological upgradation in design and manufacturing process.
- Committed team work of highly dedicated employers.

Business Concept

To achieve our objectives, we believe in providing congenial, creative and challenging working environment for our employees, providing zero defect products to our customers in order to gain continued customer support and at the same time generate adequate rate of return on investment.

Vision and Values

Anupam aims to be a market leader into fields, we enter and be known as premier Company committed to excellence.

A sense of fair play, dignity of work, ethics and respect for people, permeate all our relationships with our business partners, our employees and our customers and the community at large. This has fastened team spirit and a sense of belonging which have contributed so largely to company's success.

Since we started 25 years ago, we have constantly strived to create an atmosphere of increased creditability in the eyes of potential customers in India and abroad. We realise that we need our customers more than they need us.

A strong sense of commitment has gone into achieving our objectives i.e. multi-disciplinary engineering, quality assured manufacturing, customer-oriented marketing and good after sales service.

We have faith in our visions and values............ It is simply common sense, good practice and very hard work.

Source: Booklet—Commitment to Excellence and Quality.

Many firms do not have clear vision statements. An indirect method of knowing whether a firm has reached the stage of corporate strategic management is emergence of a vision statement. Vision of a firm cannot be highjacked from a company, however, a firm may definitely get inspired by the vision statement of another firm. It has to be evolved after a lot of deliberations, brain storming, and thinking.

It is pertinent that an individual working in a firm should become an active participant and collaborator in accomplishing corporate objectives. He must understand and share the vision of the firm because he would have to contribute in transformation of vision into a reality through his or her actions. Total behaviour of people of an organisation should get conditioned by the basic framework of vision. Personal objectives of individuals are very important to them and only to fulfill these objectives people join organisations. Vision of a company when translated into action programme must be able to meet personal needs of people. This includes the need of achievement also. Vision of a firm thus encompasses personal objectives of people which they try to achieve (Refer Exhibit. 2.6).

Exhibit 2.6 Motivating People—The Pepsi Way

Pepsi fosters belongingness and ownership in employees from whom it also demands a lot.

- It awards one-time scholarship to children of employees to study abroad
- It has set up multi-skilled capability center in Delhi which offers training tools to employees growing from supervisory to manager cadre.
- It has introduced awards for best performing sales people in a country.
- It celebrates Pepsi-day which is a day long carnival with families.
- It supplies free beverages at employees weddings
- It sends flowers to employees on birthdays
- It encourages people to preferably use blue cars as blue is pepsi's corporate color.

Source: *Business Today*, November 22, 1998

Vision of a firm is in fact its corporate philosophy. Let us see some examples of vision statements of companies in Exhibits 2.7 and 2.8.

Exhibit 2.7 BHEL Vision 2001

Vision

A world-class, innovative, competitive and profitable engineering enterprise providing total business solutions mission.

To be the leading Indian engineering enterprise providing quality products, systems and services in the fields of energy, transportation, industry infrastructure and other potential areas.

Values

- Meeting commitments made to external and internal customers.
- Faster learning, creativity and speed of response.
- Respect for dignity and potential of individuals.
- Loyalty and pride in the company.
- Team playing.
- Zeal to excess.
- Integrity and fairness in all matters

Exhibit 2.8 Philosophy and Profile of Waukesha Bearings, USA

Wakusha Bearings, USA, have stated, 'We engineer customer success', What does this mean? What's the promise?

"To our employees, it means a process deliberate process of interaction and planning with our customers. We make sure our customers utilise our resources, talents, expertise, or in some cases just our products, to the best long-term advantage of their individual businesses. It also means managing our business thoughtfully, so that we deliver the value to our customers, need to maintain their competitive advantages. We can't ride dead horses, and won't be in business long if our chore customers don't prosper in their own markets.

For our customers who utilise our bearings engineering services, it means we use our best analysis, expertise design and business judgement to provide the most cost effective solution for the assignment. Not just a delivery, that enhances their competitive edge, as well as the value they provide to their customers.

To our customers who utilise our manufacturing resources, it means a high quality product at a continually improving cost of ownership. It means we're working to make sure that our costs from quotation to commissioning are in control and improving, and that our quality remains absolutely inquestionable. So they don't have to worry about either one. And they can tend to their business at hand knowing that they have chosen well in choosing Waukesha Bearings.

To the people who work on and maintain the equipment in the field, it means we'll be there when they need us, though fully listening, with sound advice and a real world answer to the problems they face on the job.

Overall it means we bring our customers a focused combination of our resources and know-how to provide the best bearings technology available, continuous cost and quality improvement support during emergencies and the most outstanding people in the industry.

Another way to say it that we give our customers a good night sleep. That's a promise.

Source: Catalogue, Day In, Day Out Dependability of Waukesha Bearings

The major components of a vision statement must consist the following.

i. Mission of the firm in terms of product, market, and geographical scope and a way to attain a desired competitive position.
ii. Clear identification of business units and their interrelationship in terms of shared resources and concerns.
iii. Statement of corporate philosophy, corporate policy and values.

Business Mission

The basic concept of mission of business is expressed in terms of products, markets, geographical scope alongwith a statement of uniqueness. At business levels the mission statement becomes more sharp and gets focussed on specifics. It is detailing out of the vision statement that reflects the strategic posture of a company. The mission statement is an expression of business purpose as well as needed excellence to achieve a position of competitive leadership (Refer Exhibit 2.9 and 2.10).

Exhibit 2.9 Statement by Lalita D. Gupta Joint Managing Director & Chief Operating Officer, ICICI In 45th Annual Report 1999-2000

"We have taken the leadership role in bringing the new economy paradigm to the India Financial Sector. We have used the power of technology to forge relationships with several key multinationals and to establish virtual partnerships with our corporate clients. We will continue to ride the technology paradigm and retain the cutting edge."

The primary information contained in a mission statement should be the required degree of excellence for assuming a position of competitive leadership, a clear definition of the present position, and future expected scope in business. The description is usually broad and goals are achievable in reasonably short span of a time frame of three to five years. Business scope is explicit in stating what is to be included and excluded. Purpose of defining business scope is to clearly enumerate specification of current and future product, market and geographic coverage of business.

Exhibit 2.10 Statement by S.H.Bhojani
Deputy Managing Director, ICICI
In 45th Annual Report 1999-2000

"Leading its drive to attain global standards of transparency, disclosures and services, ICICI completed a full scope US GAAP audit of its accounts this year. ICICI also implemented ESOS (Employee Stock Option Scheme) to encourage employee participation in the growth of the company. ICICI shall thus remain committed to global best practices to maximize shareholder value."

Many firms suffer from marketing myopia and the contrast between the current and future scope is an effective diagnostic tool to caution against the myopic position of company. Information contained in mission statement should provide a way of selecting a method to pursue a position of either leadership or a definite competitive advantageous position.

Company Profile

Company profile reflects capability of a company depending on its resources. The resources may be available with the company or may be within the reach of the company. All types of resources in terms of their quality and quantity are necessary to be known for assessing the company profile. The resources may be physical, such as land, machinery, financial, and human, etc.

Company profile also illustrates weakness and strength of a firm in terms of its management systems and skills, technology, organisation structure, and depicts historical success of a company with reference to its present day concerns and future directions of growth. Companies may choose to alter their profile to gain a position in competition depending their strategies for growth, thus making them emerge with an entirely different approach. Some companies may go for a clean state approach to give an altogether different company profile.

External Environment

While it is vital for a company to explore whether current strategy of the company is working, it is also essential for it to determine how a strategy would work in an environment that would be faced by the company in the years to come. Environment is the outside and inside world of an organisation (Refer Exhibit 2.11). It is quite unlikely that companies would be dead right in forecasting environment, however, they can try to

Exhibit 2.13 Process of MOU Formulation in BHEL

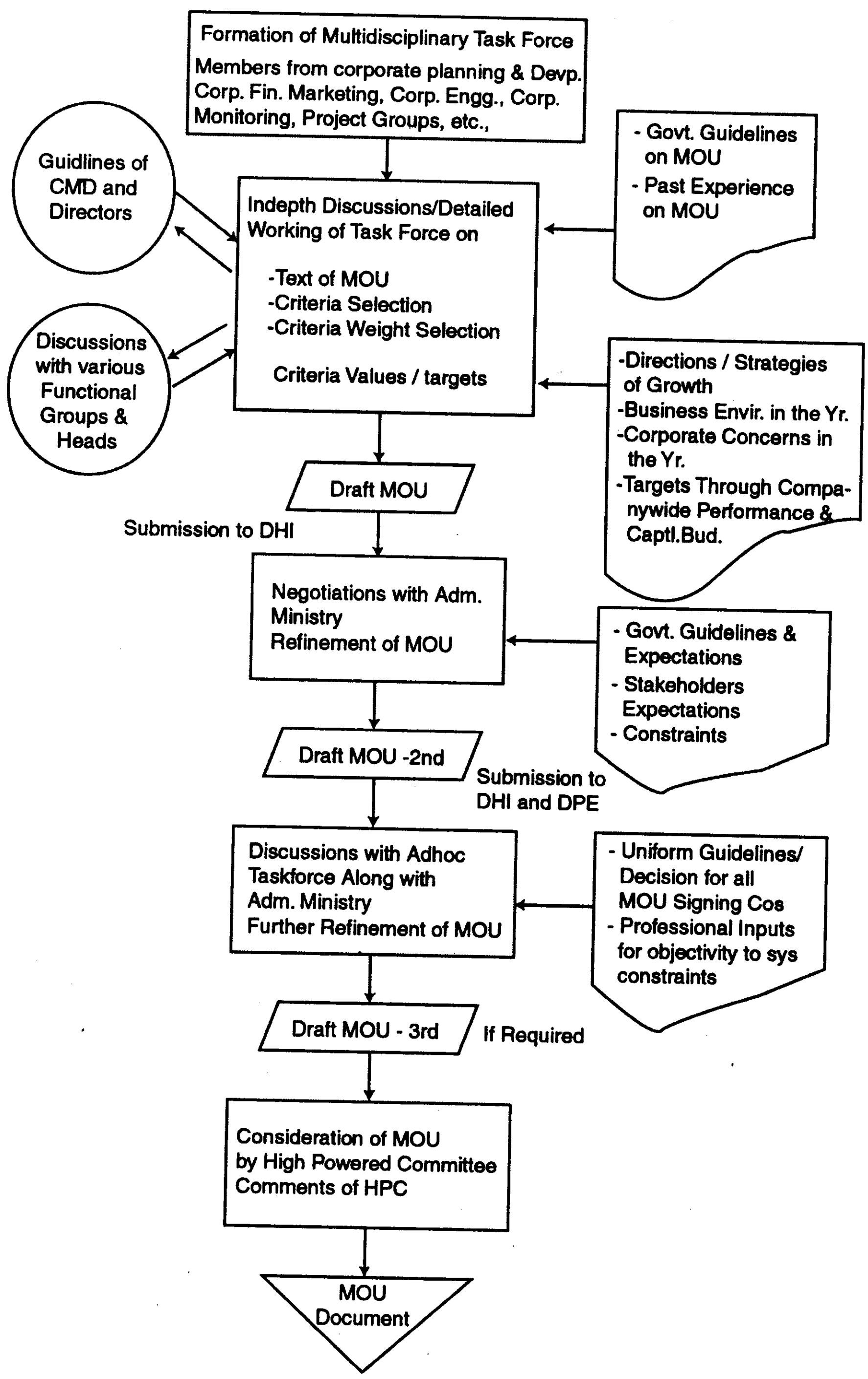


Exhibit 2.14a MOU Performance Evaluation System in BHEL

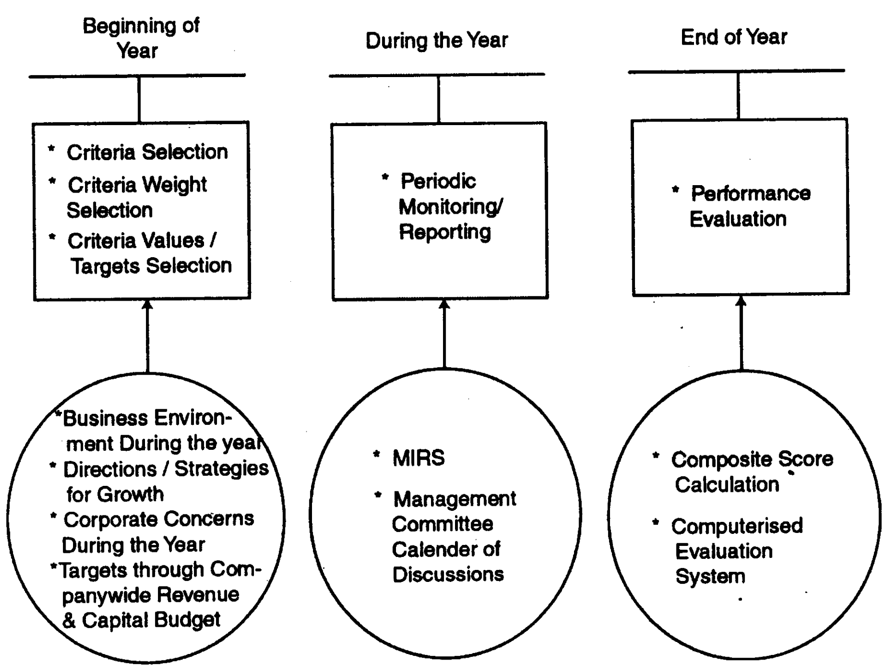
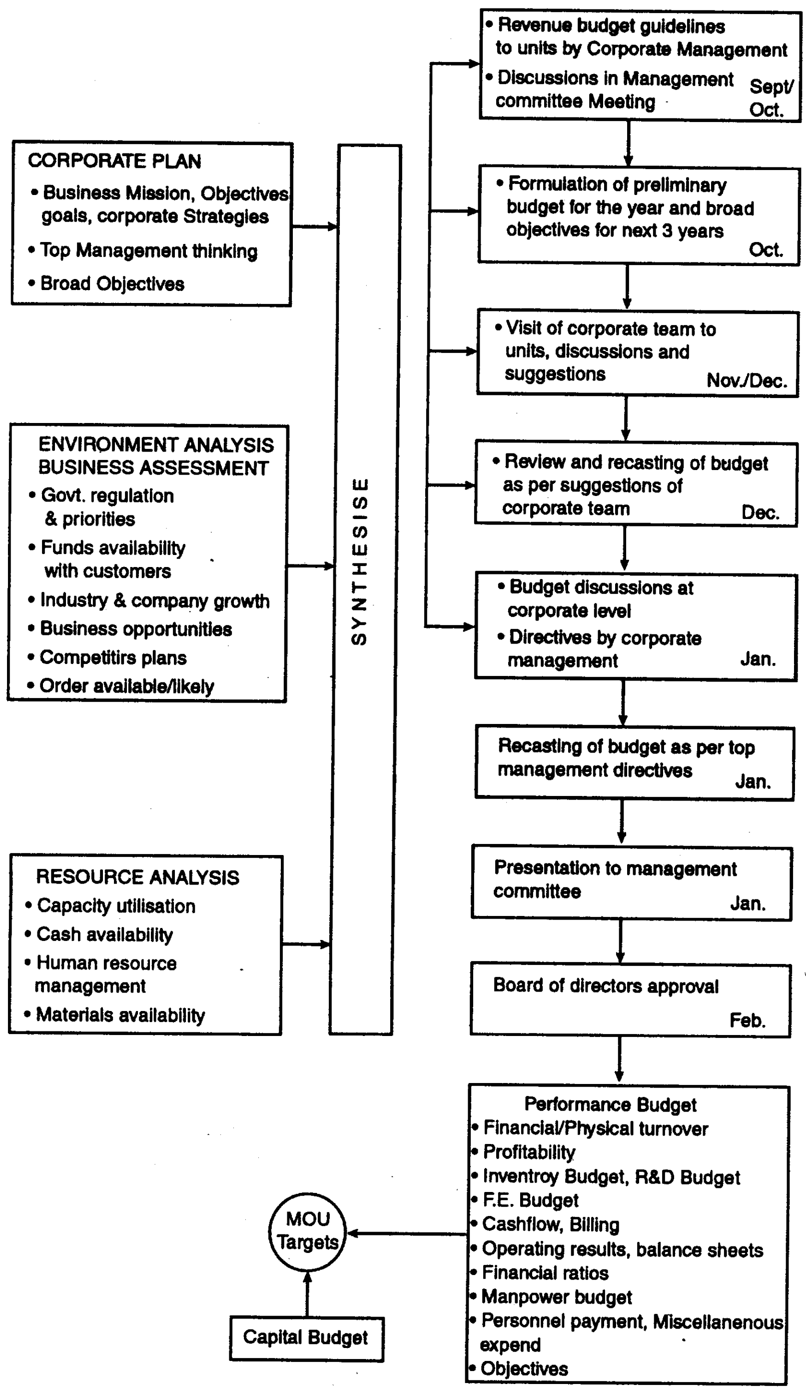


Exhibit 2.14b Performance Budgeting Process in BHEL



There are many examples of industries, companies etc., Which could not anticipate the changes taking place in their business environment and hence had to face the wrath of it. Managers must search environment to find out:

i. which factors in the environment present threats to the strategy of the company in terms of accomplishment of the objectives.

ii. which factors in the environment present opportunities for strategy of the company and which can be grabbed by the company to accomplish the objectives.

There is always a possibility of making wrong, inadequate, or over estimation of the environment and hence strategic managers must guard against such possibilities.

There are various types of environments viz. general, social, technological, legal, and regulatory that are affected by various driving forces viz. customers, suppliers, competitors, etc. Gathering of information on these various aspects can be made verbally or through written or documentary information, industrial intelligence etc. Gathering of information on these various aspects can be made verbally of through written or documentary information, industrial intelligence etc.

External environment of a firm can be viewed from different dimensions viz. political, legal, social, economic, cultural etc. The study of environment and its analysis relates to study of these dimensions in detail and an assessment of various strategies which get affected by these dimensions. These dimensions are never static and they also interact and interplay with each other, thus making the study even more complex (Refer Exhibit 2.15).

Exhibit 2.15 Shared World

Most of the futurists have been seduced by the overwhelming excitement of technological developments scooping the first world and they talk very little of majority of human kind of the third world. This prime driver, due to its size of population will dominate due to one man one vote rule of politics. The hegemony of the west will come to an end bridging inequality and substantially enriching other worlds. The economics of scales which have for long favored the multinationals may not hold any more true. The product innovations will travel round the world within no time and copies created or reverse engineered to defy new laws of intellectual property. Product launching hence would be global rather than limited to home markets. The individual ideas will also become global within a short time. Governments which intervened to control their economy for decades will be in sheer helplessness situation. The economic laws which hinged around exchange of physical goods are found to be irrelevant in more complex and intangible services. The money flows will become are more based on speculations. New super currencies may emerge leading to more equitable distribution of wealth. New computer based economic models may emerge to solve problems.

Source: David Merger, *Future Revolutions*, Orion Business Books, 1998.

Environment can be viewed and classified in various ways. Some companies talk about operating environment and remote environment. Operating environment relates to the forces within a particular industry but external to a firm and which directly affects selection of strategy. Operating environment gets affected due to interaction of various forces like competitions, consumers, suppliers, stakeholders, etc. Remote environment refers to various forces and conditions that emerge due to general political, social, legal, technological and cultural situation prevailing in and out side the industry (Refer Exhibit 2.16).

Exhibit 2.16 Missing Opportunities

India is one of the leading suppliers of Zari to the world market inspite of the fact that a large production base exists in the country, it has not been possible for the country to take advantage of rising demand of Zari Handicraft in the world market.

The industry is plagued with inadequate production, poor delivery, poor product development, high prices, low quality, erratic production and non availability of raw material. There has been a constant deterioration of quality of Zari Handicrafts over the years due to poor quality of raw materials, colors etc. A tough competition from other developing countries is on the anvil who offer their products at lower rates.

Source: K.K. Sharma, "Zari Craftsman Fail to Cope with Demand," *The Times of India,* March 24, 1999.

Depending on its behaviour, the environment can be viewed as reactive, inactive, precative, and proactive. Environment can have a different kind of response to various changes and may be slow, moderate, or fast in responding to the changes.

Strategy Analysis and Choice of Strategy

In order to reach any position, it is essential to know for a company where it is at that particular time which implies that the current strategy of a company must be clearly known. The current strategy is a set of actions that managers are busy taking for meeting certain set and spelt out objectives. From the actions, decisions, and commitments of the managers one can infer the strategy being pursued in a company. Thus strategies emerge from simultaneous assessment of the environment and threats and opportunities and concluding upon course of actions and decisions to be taken to accomplish laid down objectives (Refer Exhibit 2.17).

Exhibit 2.17 Strategies in Development of Productive Road Infrastructure

The eighth Five-year plan document, in the context of road sector had no mention about financing the road projects through private sector and financing through international agencies was clearly defined. The present system of budgetary financing will not be able to meet the rapidly growing requirements. The road sector suffers from following major deficiencies leading to;

- increase in cost of vehicle operation
- increase in wastage of fuel resources
- increase in accidents
- increase in pollution
- waste of time in journeys

The possible strategic options for rapid progress in the road sector are:

- participation by private sector
- introduction of toll on existing four lane highways and using this revenue for further four laning. Toll revenue also to be used to make repayments of loans.
- creation of separate road development fund.

The strategies for privatisation could be

1. Build-own-operate (BOO)
2. Build-own-operate-Transfer (BOOT)
3. Build-operate-Transfer (BOT)
4. Build-Transfer-Lease-Operate (BTLO)
5. Build-Transfer (BT)
6. Build-own-operate-sale (BOOS)

Source: Prof. (Dr.) A.K.Gupta, adapted from "Transport Scenario and Development of Productive Road Infrastructure", *India technorama*, February, 1999.

Organisations rarely define their strategies clearly and explicitly. The first step in understanding the strategy of a company is to develop a description of what the company is exactly doing in each of its functional areas viz. marketing, production, design, human resource etc. It also amounts to understanding the objective of each sub-process and interrelationship of each of these processes with regard to objectives, structures, systems etc. Analysis of a company's market place, price of product promotion etc. reveals its market strategy. The way a company sources, produces, and delivers a product or does service, is known as its production strategy and the methods it adopts for sourcing and using its funds is known as its financial strategy. Managers do not perform all these functions by themselves but they design systems and structures which will allow people to perform these functions. Human resource strategy in a company is concerned with methods that are used by managers to work through others to meet objectives set by them for the company.

Once a current strategy is identified, it must be evaluated in the internal and external context of company. Strategies are evaluated with regard to available resources and their ability to meet given objectives. Support of stake holders is necessary to make a strategy a success and hence their management is vital for any company.

Next stage in the process is to generate alternatives and evaluate these choices to select the final strategies. Options generated are evaluated on the basic pay-offs and risk potential and likelihood of its becoming the competitive edge firm. The strategic analysis process constitutes matching the possible, desirable, and available interactive opportunities with long-term objectives and also with viable means and the strategies. The set of variables, actions, decisions, factors, etc. which are thus selected are called as strategic choice. The criteria for comparing various alternatives is developed through deliberations amongst managers. Managers of a company may focus on risks, flexibility, stability, growth, profitability, diversification, liquidity, etc. considering one or more factors together (Refer Exhibit 2.18). The process of making strategic choices is very complex and calls for due attention to multitudes of factors influencing the decisions and must be carefully worked out.

Exhibit 2.18 Business Revolution

A revolution is in the offing in Indian business scenario. There is a sudden, momentus, and forcible basic reorientation of the business situation.

- Redefinition of markets:

  The markets are moving from regional and national to global markets due to trade agreements thus leading to expansion of potential markets with more fierce competition. The assessments of market environment needs more dynamism and new set of planning dynamics.

- There is a distinct shift of focus from producer to customer, the services offered and the quality of goods delivered. The entire product research, organizational structures, quality progress, planning etc is focused now on customer and it is now vital for companies to know their local and global customers and competitors.

- The information explosion has brought the world closer with regard to business ethics, product quality, customer preference etc. The work force having core competence has assumed new dimensions.
- Information technology has transformed societies and businesses and has control over strategies of business. The information technology has become necessary for organisations.

Source: Marilyn M. Parker, adapted from strategic transformations and information technology paradigms for performing while transforming

Long-term Objectives

Organisations plan for long-terms and develop long-term objective. These objectives cover various areas viz. return on investment, competitive position, leadership in a definite field, productivity, public image, employee development, profitability, etc. It is important that objective should not be ambiguous and on the contrary these should be clear and measurable. It should also be possible to achieve these objectives although it may be slightly difficult to do so. The objectives are the results one expects to get out of business one does, and the way one does this business is called the business process which must be long term. Objectives can be; increasing value added reduction of inventory to a certain level, training a specific number of employees in some skill, achieving business excellence, multifold earning per share, capturing certain markets etc.

Grand Strategy

Deciding of a long-term objective is immediately followed by major action plan. We know that environment is usually dynamic and deciding major action plans by taking dimensions of environment into account is called process of formulating the grand strategy. Grand strategy also takes into account the resources available and an analysis of required resources for accomplishing the objectives. Each company has to decide its own grand strategy and hence it is unique in nature, however, it would be fairly accurate to say that following are generally adopted approaches to selecting a grand strategy.

1. Marketing strategies
   - Market development
   - Market share
   - Exploring new markets for old products
   - Exploring old market for new products
   - Market research

   (Refer Exhibits 2.19, 2.20, 2.21, 2.22)

Exhibit 2.19 Brand Equity

In global markets, brand equity works as a strategic factor at three distinct levels. These three level are product, firm and country. The focus of brand equity is to make the customers positively inclined to use the products of that particular company. The brand equity emerges from several consistent strategic choices of a firm displaying its core values. We know that customers get swayed by names like Gillette, Microsoft, Tatas etc. If the purpose of government is to attract MNCs, the very character and constitution of the government becomes quite crucial for companies to come forward. Delegations visiting India for investment opportunities give due attention to incidents of storming, picketing, strikes and law and order situation. The safety of money and personnel is the prime concern for MNCs.

Source: Dr. Arun Kumar Jain, India Brand Equity Fund, Competing Globally the Wrong Way, *Indian Management*, Jan–Feb, 1999.

Exhibit 2.20 Concurrent Engineering

A survey conducted in 1984 in Japan among CEOs revealed that the prime duty of a CEO is to increase market share and also increase the ratio of new products to the old. It was also suggested that the later is more crucial to the first.

The focus of new product development should be on the customer's needs for his delight and success. The concurrent Engineering aims at simultaneous development of products and the related process to meet the customer's needs and built into the product as a bundle of functions. The design absorbs 15 percent of cost but commits 85 percent of it and is an investment rather than cost. Hence product development need not mean producing new products but may mean adding more value for money that the customer pays.

Source: *Economic Times*, November 29, 1998.

Exhibit 2.21 Entry of Nepal in Copper Wire Industry

About 200 units of copper wire industry are in the pipeline in Nepal a country which does not produce any copper. The country has 5 per cent import duty on copper rods, in contrast to India which levies 35 percent duty. The bare copper wire produced in Nepal will come to India for enameling without any import duty due to Indo-Nepal free Trade Treaty.

Source: *Business India*, Nov. 30 – Dec. 13, 1998.

Exhibit 2.22 Success of MNCs in India, the Guiding Factors

The Indian partners need alliance due to lack of technology for making products, paucity of funds to make huge investments and take the risks involved in acquiring these skills, low capabilities and resources. The MNCs on the other hand seek alliances to maintain their global leadership in business and perceive India as a potential market for their business. The Indian partner provides the knowledge of the local markets, uses local connections for smooth sailing and help in easy startup. The MNCs provide technology, process, equipment, product design, quality methods, brand image and a part of the capital.

The MNCs have superior learning capabilities due to their exposure to the world market and hence they learn very fast about the local market conditions and can use the arising opportunities with better skills. The local knowledge (language, culture, performance etc) is best known to the local manager who would be interested to shake hands with MNCs. The technology absorption and appreciation of good quality is the most difficult part of this alliance, however, continual upgrading of their learning capacity is almost a pre-requisite for protecting the equality of partnership for an Indian manager.

Source: *Economic Times,* November 27, 1998 & Sumantra Ghoshal Series

2. Integration strategies
   - Backward integration
   - Forward integration
   - Horizontal integration

   (Refer Exhibit 2.23, 2.24, 2.25, 2.26)

Exhibit 2.23 Concentrating on Core Competencies

The US based Timken company has acquired the 40 per cent stake hither to held by TISCO in Tata Timken Indian Ltd. taking its share holding to 80 per cent. This acquiring has been done as a part of global strategy of Timken to concentrate on its core competencies.

Another UK based global steel giant Ispat International is out to buy Unimetal, Tefileurope, and other related subsidiaries of world's second largest steel producer Usinor.

Source: *The Times of India*, March 4, 1999.

Exhibit 2.24 Alstom's Strategic Moves

Alstom has entered into an agreement to acquire ER Equipments Electricos which specialises in manufacture of air core reactors and line traps in Brazil.

The acquisition will strengthen Alstom's presence in North American and Latin American markets where ER has an established reputation since 1967.

As part of Alstom, the new company will have new business opportunities and would address wider customer base.

In another strategic move Alstom have sold its subsidiary Alstom Vannes specialising in industrial valves to TYCO Flow Control Holding SA . .pa. pa

Source: *Business India,* May 25, 1999.

Exhibit 2.25 Glaxo's Takeover Strategy

As soon as T. Thomas the chairman of the 700 crore Glaxo India expressed the intentions of his company of acquisitions, the market rumers have sent the stock prices of the possible candidates shooting through the roof. The possible take over included multinational company, German Remedies, Cipla and Merind Analysis have pointed out that Indian Labour laws are a major stumbling block as laying off of people is quite difficult in India

Source: Adapted from *Business World,* August 1997.

Exhibit 2.26 Breakups

Breakups have been called by different names like spinoffs and demerger also. In fact down sizing has become an accepted practice in corporations access the globe. The rationale behind breakups is the erosion of values between different businesses of a corporation. The overall performance of SBUs is found to be much smaller compared to what they would have if they were independent units.

Source: Adapted from *Business World,* August 1997.

3. Overseas strategies
   - Globalising Business
   - Being multinational company
   - Licensing abroad

   (Refer Exhibit 2.27)

Exhibit 2.27 Legal Protection for Brands

Prominent brands viz. Nike, Benettor, sony etc. are being helped for protection against misuse of their brand equity through new laws on the anvil. These laws are being framed under India's obligation under Trips agreement of 1994 and the MNCs would now be in a position to take legal action against piracy of brands and products. Under this law the government will stop imports of fake or pirated goods which hither to were being rampantly imported from Nepal (e.g. NIKE Shoes, Casio Calculators etc.). Under the legislation of designs the government will protect designs of products, for example, Reynold's pen.

The laws on geographical indications for protecting Basmati Rice and Darjeeling Tea etc will be framed. Many companies in Brazil, Taiwan and Kuwait use Basmati as their trade mark not only for rice but for many commodities like coffee, tea, sugar, cereals, bread, cakes, biscuits, etc.

Source: T.S. Vishwanath and Sharif D. Ragnekar, "Law to protect brands, design on the anvil," *Economic Times*, March 17, 99.

4. Logistics strategies
   - Rationalisation of distribution
   - Excess capacity
   - Rationalisation of product
   - Rationalisation of services
   - Rationalisation of product line

5. Efficiency based strategies
   - Methods efficiency
   - Technological efficiency
   - Manpower efficiency
   - Productivity
   - Value oriented
6. Opportunity strategies
   - Hesitation
   - Pure survival
   - Maintenance
   - Abandoning

It is not possible to encapsulate all actions that a company would take while implementing any one single grand strategy. The above list is not exhaustive and companies may come up with entirely new concepts in deciding their grand strategy.

Selection of a grand strategy depends on many factor like environment, objectives of the firm and its strategic positioning etc.

Annual Objectives

From long-term objectives are born annual objective of a company. The long-term objectives when knocked down, lead to decisions on annual objectives or targets. In case a company decides to attach an increase in value added of ten percent in 10 years, then it may like to fix the annual objective of value added as one percent. It need not necessarily be a straight-line relationship. Some companies may strive for quantum jumps initially and in later years they may plan for growth which may be incremental in nature. In a typical company aspiring to cut down costs of its operations over a period of 10 years, may decide its annual objectives by selecting, first the key cost areas and then fixing the cost reduction targets to be achieved annually. A company which is in the field of manufacture of power generating equipments may decide to fund certain power projects to keep its employees busy and also generate profits and create surplus.

Functional Strategies

Each grand strategy can be broken down into functional strategies at operating level. Company may have several departments which perform certain functions. Grand strategy chosen at the organisational level would have its share from each of these departments which should inturn decide the course of actions leading to accomplishment of objectives given by the grand strategy. When a company decides that it would become a market leader in a particular industry then all the departments viz. marketing, design, manufacturing, packaging, advertising etc. will have to fall in line and evolve strategies at the functional level which must be in congruence with the grand strategy chosen and the business vision. Usually, functional strategies are directly linked to annual objectives and therefore a measurable assessment of the annual objectives is necessary to make an assessment of objectives of the following year. Annual budgets of a company are closely linked to functional strategies and are reviewed from time to time.

Business Policies

In hierarchy of any organisation, managers at different levels are delegated with executive powers for guiding their decisions and actions. These executive powers and guide lines for thinking and acting in a manner that would be helpful in meeting a long-term strategy of a company is called a policy of the organisation. A company may have a policy document on integrity, financial aspects promotion of personnel, marketing etc. These may also be referred to as standard operating procedures and serve to make managers more effective since routine decisions are standarised in the form of policies. Due to availability of policy document, it becomes easier to accomplish functional objectives as clarity is developed for specific actions to be taken as per delegation of powers.

There are many examples which can be catergorised as policy decisions.

- An office order that managers and above can travel by first class.
- A circular stating that indents having estimated value more than Rs. 1 lakh to be signed by Deputy General Managers.
- A company wide decision that promotions will be stopped for next two years.

Institutionalising the Strategy

It is important that strategies must be institutionalised i,e they should be in the very fabric of an organisation and strategy should be operational while performing day-to-day functions. The strategic decisions should not get formed only in parts of plans and gather dust but should be felt pulsating and throbbing in the actions taken. The first step to translate long-term intentions into short-term guides and actions is making a strategy operational. In order to make strategies operational organisational structure, leadership, and culture play a very significant role. Successful implementation of a strategy depends on effective integration of all of these factors along with able management.

Evaluation

A continual process of evaluation of strategies is necessary. Evaluation process must be an integral part of strategy implementation because it keeps the entire program on the tracks. Evaluation is done on the basis of objectives defined and measures decided for evaluation of effective implementation. The purpose of evaluation is to introduce objectivity in meeting the target clearly defined by the strategy. Managers must keep an eye on the likely responses from various functional groups and the parts of business processes where strategies are implemented. The market response measurement is also important for evaluation of strategy.

Control of Strategy

Strategy must achieve objectives for which they are designed and for this purpose controls are to be exercised at defined levels in an organisation. The amount of control required is dependent on many factors viz. the size of organisation, the business process, number of business segments, structure of organisation etc. Control should be such that it should yield the desired corrective action. The required control which is to be exercised depends on variation in results. It may be important for some companies to even decide on the control strategies that they would adopt.

STRATEGIC MANAGEMENT VIEWED AS PROCESS

A process has defined inputs and outputs. The inputs in a process undergo changes to create the desired outputs. The desired outputs are one of the objectives which are expected out of the process.

In a typical strategic management process, all kinds of information is required. Historical data, current information and forecasts on the business, various operations and details pertaining to environment are some of the important requirements. The business and its various operations and details pertaining to environment are required to effectively assess the process. All this information is to be processed taking into account the values and culture and internal environment of an organisation. The persons who have stakes in a company are also considered as they exercise their power to see that their interests are guarded. Groups which work in an organisation are also important and must be considered in the entire process of strategic management. In fact, strategic management process can be viewed as business process of an organisation crossing all the boundaries of highly functionalised groups. Objective of strategic management process is to evolve a strategic plan which would include formulation of strategies and develop methods of implementation of these strategies to meet long-term set objectives of the company stated as vision and mission statements.

In a process each element is dependent on the other for inputs it receives and the output it delivers. Each stage has a defined role to play and in case any specific stage does not effectively play its role the entire process gets corrupted. When strategic management is viewed as a process, some important facts are revealed.

In the overall cycle, each stage affects the previous and the fore stage, as depicted by arrows in the model. The flow of information is two ways and hence the impact is also two ways. Let us consider external environment as an illustration of the fact. Any change which occurs in external environment affects formulation of strategy. In case there is a change in Government regulation a company affected by it cannot afford to sleep over these changes. A company may have to study the implications of new government regulation in its strategy and make changes wherever desired. Similarly, when government thinks about bringing some change in a regulation, it would generally take into account views of various companies in the industry getting affected by the regulation. Harmful emissions from automobiles have always of concern for the Indian government but it cannot enforce the legislation without seeing its total impact on the society at large, including the users of old vehicles, road side mechanics, and a series of new cars entering the market. Thus, the forces present in the external environment make it mandatory for the companies to account for their interest while formulating business missions and reciprocally the environment legitimises the mission of the company existing in that environment. Before the liberalisation policy there were hardly any companies who had a mission to become a world-class company but today most of the companies aim at becoming world-class in their respective fields.

A company may call its mission by different names but essentially it serves to link the organisation to society. Many companies define in their mission statement that they would devote themselves to develop significant resources to diversify into high-tech areas and market oriented businesses with superior growth and profit potential and consistently increase exports in line with national goals, which is generally in line with the program of the government.

Another implication of viewing strategic management as a process is that defining business vision and mission, strategy formulation and its implementation are sequential.

Any process has this important characteristic that each element has to be sequential. One cannot perform a process by being haphazard in this approach. Assessment of environment of a company is vital for formulating strategic options otherwise the strategies may not work for objectives for which they are designed. The development of company profile is a must for formulating the strategies or else the company may formulate some highly ambitious strategies which may be of little practical use. The entire exercise may lead to building castles in the air.

The process of strategic management begins with introspection by the company, i.e. analysis of its strengths and weaknesses. Company mission statement is reviewed and revalued and a new statement is arrived at taking all the factors, internal and external to a company into account and the likely impact of each of these factors is carefully analysed on the total mission of the company. After this process is complete, strategic choices are developed, most suitable strategy is selected, long-term and short-term objectives finalised through a feed back process, operating strategies are designed, experimentation and pilot studies conducted, if required, and the evaluation of strategies made for institutionalising and continual review and necessary updation systems are also designed and installed. The need for measure of rigidity with which the process is to be followed must also be known from the measurement accuracy and the results of measurements and an awareness program taken up by the company to draw support from its people.

Strategic posture of a company is vital for it and its knowledge to the manager of the company must be in very clear terms. People at the helm of affairs must really understand the strategic posture of the firm. The strategic posture of a firm is defined using a coordinate system of principal factors that affect the position of a company. Significant factors for a company are chosen and its strategic posture and position is defined. Various factors which affect strategic posture of a company can be entry of a major competitor, death of an important board member, loss of major order by company, replacement of the chief executive of company etc. There may be many more on the list of the company which many affect its strategic posture and on the event of happening of any one or more of these incidents the company has to essentially reassess its strategic position. The process of reassessment, in fact, is built into the measurement and evaluation process itself and indicators may be on for reassessing the vision and mission statement of the company. The strategic management process begins in the reassessment of the mission and vision statements and undergoes the complete cycle of events as already depicted in the model.

In cases of very stable environment, which is in fact a matter of history, the companies need not go through the reassessment process of the vision and mission statements. The stability of the environment is no more there, however, in future, theoretically a situation like this may occur wherein vision and mission statements may be required to be reviewed only after a long period of time. In the past, it was often found that companies were generally satisfied with their original statements of vision and mission even after a decade. In India, after liberalisation of economic policies most of the giant companies are busy in reviewing their vision and mission statements.

Today most of the corporate sectors are busy doing formal strategic planning and are spending considerable time in addressing each component of strategic management. The objectives of companies are being up dated each year and rigorous assessment exercises are continuously on.

A very important aspect of viewing strategic management as a process is its continual feedback on each stage of evolution of strategic management policies and plans. The feedback is also vital from the point of view of institutionalising the strategies and a continuous review of status of implementation and measurement of results is necessary. This offers a lot of scope for improvement in the process of institutionalising the strategies and making them more effective in accomplishing the desired results. Feedback is given based on the measurements conducted at each stage. The cause and effect relationship at each stage of strategic management define the input and output relationship and measurement of the effect is done and given as inputs to get the desired and measurable effects. Thus future decision making is made more simple and quality of decisions is enhanced due to better quality of inputs. The strategic management process must attempt to assess the impact of implemented strategies on external environment. Future planning which is essentially required to be done takes into account the effect of these impacts and precipitates that they may be required in the strategic actions. The strategy managers eventually use the feed backs for modifications in strategies.

We know that environment and other factors important to a business are never static and this dimension makes the entire process of strategic management as dynamic and ever changing. The interrelated and interdependent strategic activities have to constantly change as per the needs of the changed conditions. The basic approach to planning in freezing the changing conditions and making plans based on this axiom, whereas practically the actual conditions keep on changing, making it imperative that the plans must continuously be updated. Strategy managers must recognise this factor carefully while making strategic decisions. Managers must appreciate that internal and external environment is dynamic in nature and must be constantly monitored and significant changes in any of the stages of strategic management process must be identified and their consequences estimated to arrive at strategic decisions. There is nothing like an absolute strategy in the ever changing environment. We know that government polices, economic situation, aspirations, due requirement of people, demands of unions, etc. are assuming newer dimensions everyday and the strategic management process must actively consider these and other factors which are significant to a company.

LIMITATIONS OF THE MODEL

It is vital for a company to understand the limitations of the strategic management model in order to be able to plug various lacunas when applied specifically to their company. The usefulness of the model is more if its limitations are well appreciated and users are well aware about methods of overcoming these limitations by being aware of various factors and being judicious in identifying their cause and effect relationships. This awareness also induces more effectivity to the strategic management process. It must be clearly understood that the practical models which are used by different companies are similar to the one presented in the book, however, the model is modified and tailored to suit the requirements of a specific company on case to case basis. This is done through use of experience with regard to various factors and their interrelationships for a specific company or industry. The three important limitations of the model are discussed as follows:

Holistic

The model presented is holistic in nature. i.e. the philosophy of the model is based on assumption that strategic management planning should be initiated at top level of an organisation.

The model presents a broad perspective and hence the process is assumed to be triggered off at top management level and at the functional level detailed strategies are to be designed to meet specific needs of a functional group. The approach is to study the business as a whole first, and thereafter accounting for the total competitive environment surrounding organisational operations. The model is basically in three tiers i.e. at top management level, functional level, and the operating level. At operational level, action plans are developed in greater details and measurement criteria established. In contrast to holistic approach, there is tactical approach, which is highly situational in nature and largely based on the available opportunities. In tactical approach the managers work up through their firms and study available potential of the firm to meet various challenges. They obtain an operational view of the firm's strength and weaknesses and workout the ability of their firm to meet the challenges imposed by external environment. The holistic approach is found to be theoretical in nature and hence the planning that may ultimately emerge out of this strategic management model may be unrealistic. Managers would tend to overlook scores of difficulties that may arise in implementation process and may come up with unrealistic planning. The holistic approach often culminates into a highly theoretical plan as managers tend to overlook finer details. The finer details in the entire plan may be of great significance and may affect the final strategic decisions. In order to make the plans operational it is vital that each of the finer details be worked out and possible threats to the implementation process worked out in advance. Although it may be really difficult to envision all the problems that may be faced, however, managers can add from their experience and from the results of critical study regarding the internal environment of the company which is necessary to be conducted by all companies. The tactical approach on the contrary has its own limitations because here the planning becomes more rigid. Managers focus more on the operational details and are over cautious of the risks. They sometimes resort to overstating the factors of status quo due to their very tactical approach. The view is myopic as stress is more on immediate operational concerns. The planning also concentrates on these concerns only thus missing out the important opportunities on way. Overall planning function is almost absent and focus is on narrow operational problems. Whatever planning is there, it is disjointed, confused, and complicated and hence evolving a unified strategic plan is difficult. Focus is usually on the present, Future plans, opportunities, threats etc. are all considerably ignored. We know that strategic management is all about the future. In tactical planning, focus is on making improvements in the current position of a company. In tactical planning emphasis is not on satisfactorily meeting a futuristic need which is the basic objective of strategic management.

Strategic management model which follows step-by-step procedure based on scientific collection and analysing of data is more superior to tactical planning which primarily concentrates on immediate gains. While following strategic management model, it is very important that data should be accurate. Data should be collected from right sources and should be verified and validated. Managers at middle and lower level feed in operational data based on which strategic management model works and hence their voice must be heard. There is a likelihood that these levels of management may be ignored since they do not directly participate in strategic management process, however, they are the information providers. Their voice speaks of real problems that strategies may encounter and hence their advice must be taken during process of strategic management.

Analytical

It must be noted that the strategic management model is analytical in nature. It does not specify the procedure which must be followed by a specific company. The model does not detail out various logical, sequential, and analytical steps that companies generally follow while designing strategies. It does not detail out each step for a specific company and each company may have to write its own script. The model cannot be said as ideal and ready to be used by all companies. In fact many companies have used different models and achieved great success. The model is only a general approach to strategic management. The model does not ensure definite success and each company may have to make additions and deletions suiting to their specific needs.

Nonpolitical

Any activity in strategic management process is done by the people involved. One should appreciate that in any organisation people who participate in the strategic management processes bring with them problems related to interpersonal transactions. Various problems that arise due to this can be subjective assessment, incorrect interpretations, errors, biased view in some issues favoring a few, decisions based on over generalisation of facts etc. Thus we see that behavioural aspects play a significant role in strategic management and problems usually associated with group dynamics are also present. It is vital for management to analyse carefully into this aspect of strategic management and organise people to get best out of them in a given situation. Strategic management models assume that managers involved is strategic management exercise are skilled in human relations and able to sensitively and skillfully handle situations of interpersonal relations and behaviours which arise in various working situations in any organisation. People related issues must be handled with care otherwise the entire exercise of strategic management may become futile. In order to have a clear focus, the top management must help to build a congenial climate wherein healthy and fruitful discussions through brain storming, foster creativity and innovative thinking rather than wasting energy in clashes with each other.

Evolutionary

Strategic management process is evolutionary in nature. One cannot just sit in a closed compartment and come out with magical strategies. Strategies that are evolved through detailed discussions and deliberations on each issue are initially generalised in nature and get cast over a period of time. Executives first have a general idea which gets more clarity as the discussions and exchange of ideas proceeds. This happens because the entire business is studied with a holistic view in the context of environment and other vital factors internal to a company. A generalised view of environment for vision and mission of business is developed which gets more specific when it comes to sub-business units and operations. Thus strategies evolve through a process of discussion over various issues like planning system, perception of usefulness of strategies, involvement of managers, time to be spent on strategic management, acceptance of results of deliberations, resource deployment, consistency between budgets and plans, attention to social issues etc. As the discussions are held in a frank and open way, managers gain confidence and their participation gets more result oriented, specific, and business like. A clearer insight into knowledge, experience, skills, and understanding of the process of strategic management is developed which yields positive results.

APPENDIX

MANAGING MERGERS—IT WAY

By S. Lomash

According to a research conducted of several organisations in 1997, it is found that about 70% of mergers and acquisitions fail to produce results, as desired, and about 50% of such deals entirely fail. It is also found that the failures cannot be attributed to price or deals as such but to all or some of the following factors:

- Poor management of acquisitions
- Different Cultures
- Non-focussed management policies
- Poor usage of Information Technology

Out of several ways to make mergers work and deliver results the most promising is to manage planning process more effectively. It is pertinent to identify the Information Technology opportunities and the associated risks related to mergers and acquisition to derive benefits from the total change process.

DECISION OF MERGERS AND FINER DETAILS

The decision of merger commences with study of financial models. Estimates are prepared and industry's best practices are scrutinised based on which synergy of the process and the merger is estimated. Sadly enough, at this stage, finer details regarding ways and means to accomplish financial objectives are very often overlooked. With large dimensions of complexities it may not be humanly possible to carefully study the models for which IT can be prudently used.

Many companies, provide this expert services wherein they draw from their worldwide services, sales and research organizations to cater to needs of mergers and acquisitions. The process consists of using IT, business process re-engineering concepts, project management techniques, systems integration skills etc.

Steps of Mergers – IT Way

In order to manage a merger and acquisition process, large amount of information is required to be processed. The data on two merging companies needs to be thoroughly classified, analysed and presented for drawing meaningful conclusions

Step 1

The IT should be used even while finalising the deal. An analysis of data covering all the possible aspects of merger and acquisition should be carried out to given an instantaneous picture of the event. 'As in view' capabilities of both the companies before and after merger must be considered. The result of such a study permits acquirer to assess risks and test the assumptions of the merger process.

Step 2

In this step, it is essential to develop a collaborative environment unlike the first step where the attention is on a number of companies. At this stage, the focus is on what a new company would be and for this to happen an expert IT professional is given the responsibility to develop a team playing spirit and faster and quick decision-making. A basic transition plan is developed, including estimation of costs that would go in to the process and a rationalised approach for new business entity having new business processes and a consensus on new strategies of integration are developed.

An effort is made to identify all those business processes and smaller segments of organisational structures that would have highest probability of supporting the new strategies. Even new application areas that would emerge due to merger may be selected. It is necessary to build good communication channels between the two organizations to permit blending of cultures in a most harmonious way.

Step 3

At this stage the total system or process that a company would follow is fragmented into manageable units. Project staffing plans are implemented and detailed work plans are developed. All this is done through a core group which keeps close monitoring of business processes and reports to top management for guidance and/or corrective actions. The objective here is to culminate the merger quickly and reap the benefits as early as possible. The merger synergy is the prime focus.

Step 4

In this step, the focus changes to supporting the new business processes and re engineering them, if required, and evaluation of strategic actions and initiatives and evaluating their performance for course correction is done. It may be worth while sometimes to even re-evaluate the merger decisions.

It must be borne in mind that decision making is the key to progress and quick decisions are required to be taken to effectively implement new strategies.

Reference

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CHAPTER

3

DEFINING VISION AND MISSION OF A COMPANY

Vision statement is a permanent statement of a company which communicates mission of a company, identifies its major strategic business units (SBUs) and their interaction, and its corporate philosophy. It defines the very purpose of existence of a company in terms of its corporate objectives, business scope, competitive leadership, and provides a framework for operation of relationships amongst stake holders, customers, suppliers, competitors and other driving forces of business and the company itself. It also includes and enlists the broad objectives of a firm. It essentially emerges from the CEO of the company and is an expression of a unifying thread between different organisational units. It offers vital challenges, communicates sense of accomplishment of objectives, and serves as a fountain of inspiration to members of an organisation. In fact it has an altogether magnetic effect and is a motivating, driving and guiding force for people of an organisation who work to achieve the targets envisioned, keeping in focus the ethics and values cherished by the organisation.

It is really quite difficult to articulate a vision statement. Many companies find it extremely difficult to define a vision statement due to their nature of work or near total absence of a vision. They are bogged down with the routine activities and do not have focussed growth directions. In such organisations employees do not share corporate objectives and do not work in an unified direction for accomplishing the company's vision.

The vision of a company is a direction for action for an individual employee. It gives him a defined path on which he must act in a manner which would re-inforce his personal views towards meeting the objectives of the vision of the company. He must become an active collaborator in pursuit of strategic purposes and be comfortable with the vision of the company. He must clearly understand the implications of the company's vision and must develop a clarity about it at the operating level keeping in mind prevalent traditions and values of the organisation.

In order to develop the vision of a company, one must first understand segmentation of business of that company, which is done in terms of strategic business units.

Strategic business units (SBUs) can be defined as an operational entity or unit, or a planning focus that offers a set of distinct set of products or services to a definite group of customers, which can be termed as a segment due to their identifiable traits, in comparison with a well-defined set of competitors. SBU is a level at which an analysis of business is done and strategic planning effort is centered around it (Refer Exhibit 3.1).

Exhibit 3.1 Characteristics of SBUs

For a product or service to be classified as a SBU, it is necessary that it must have following characteristics.

1. It can be a single business or collection of the related businesses (backward or forward integrated) which can be planned for profits and activities, independent of the rest of the company.
2. It has its own group of competitors competing with the business.
3. The unit has a CEO who is responsible for strategically managing the business and for creation profits.

Source: Rajan Saxena, *Marketing Management,* Tata McGraw Hill Publishing Co. Ltd.

The following exercise is to be done prior to articulating a business vision.

1. Identification of SBUs within a company and clear identification of rationale for business segmentation. The rationale is arrived at after deliberations amongst people of an organisation.
2. Identification of need and areas of sharing resources among various identified SBUs. The purpose of sharing resources should be identified, which could be to achieve economies of scale or problems related to infrastructure or mobilisation of resources and so on.
3. Identification of shared concerns among SBUs pertaining to competition, business cycle, recession and so on, or to meet the demands of a specific industry, a geographical area or a customer.
4. Analysis and establishing responsibility, authority and functional relationships amongst the proposed SBUs and corresponding business and organisational structures (Refer Exhibit 3.2).

Exhibit 3.2 Vision of Canara Bank (1988-1991)

In December 1988, Mr. Prabhu said in his message, "Progressive organisations committed to excellence the world over, pursue a vision. It is this pursuit of vision that provides a motor force for bigger and better effort by every individual in our organisation. Our vision is to emerge as the best bank in customer service, profitability, productivity and innovations. It is something where each one of us can contribute irrespective of our placements, functionally, geographically and hierarchically. Let us all pursue our vision assiduously and stead fastly".

Mission

"Having emerged as a high profile, highly innovative and high profit earning bank, Canara Bank will now setup its endeavour to achieve banking and service excellence with the help of competitive and committed personnel."

MISSION OF A COMPANY

Basic understanding of the mission of a business unit of a company is similar to understanding the vision at its corporate level. This is expressed in terms of products and geographical scope, and it defines the competitive singularity of a company. At the business level it is more specific, sharply focussed, and more detailed. It emanates from corporate vision and strategic posture of a company. However, the possibility of a difference in perspective may exist at the business and corporate level. A company may aim at different competitive leadership at business levels which may not really coincide with those at the corporate levels. Thus the mission of a business is a statement of its current and future expected position with regard to products, market leadership, geographical scope, and also includes a methodology of attaining the desired competitive leadership.

A business mission helps to evolve an executive action. As the company mission includes the fundamental unique purpose for which the business in question is set apart from similar business units or firms of its type, it tends to create a separate identity for the business or the company in question. However, the business is defined as covering the scope of operations which follow the path of execution as envisaged in the mission statement. It is a build-up of business philosophy of strategic decision-making with regard to products, markets, and technological areas that need be emphasized (Refer Exhibit 3.3).

Exhibit 3.3 Plans and Strategies of IBP

The core competency of IBP is in the area of marketing. IBP has been known for its retail outlets and perception of customers is that oil available at IBP retail outlets is better than at other retail outlets.

SWOT Analysis

The biggest strength of IBP us its efficiency in retail markets where it enjoys tremendous trust of the company and dealers who are treated as part of the company. The people at IBP are also its strength.

The major weakness of IBP has been in the areas of other companies for about 90 percent of its products.

Change in Business Scenario

Due to de-regulation which would culminate by April 2002, into total open field for global players, the changes in business scenario may result in refusal by companies to supply products to IBP and hence they would have to build their base. The first objective of the company is to maintain its own outlets and then go in for growth. Retaining of professionals in the company is also a challenge in these times. The need for the company to become cost competitive has become essential for survival.

Following are the major strategic areas:

1. Major investments are required for infrastructure
2. Strategic alliance with refineries
3. Building up company's own infrastructure
4. Setting up import terminals
5. Changing the face of retail outlets
6. Better customer service
7. Creating entry barrier
8. Multiplying the size of the corporation

Source: Adapted from *Business India,* May 1998.

NEED FOR A MISSION STATEMENT

Defining the mission of a business is entirely an internal agenda of a company. No external agency can probably help in this regard, because it is the way a specific company would like to conduct its business to attain a certain desired objective. It is a very painful, tedious and time-consuming exercise, but is vital for any company or business. It contains a few specific areas of thrust, broadly carved out goals and strategies, and is a statement reflecting the attitude, outlook, thinking-pattern, orientation and direction of the company.

We have discussed above the need for a mission statement. However, to summarize, we may state the following reasons for evolving a mission statement.

1. The mission statement gives a unified direction to the company's growth.
2. The utilisation of the company's resources is also unified, and people get motivated to exploit these resources in a specific direction for the company's growth.
3. Allocation of resources is based on the mission statement. Company executives get an idea for allocation of resources as directed by the mission statement.
4. The mission statement while giving a direction for growth also tends to build up a professional climate for maintenance and improvement of the company's status in any desired area. Thus it streamlines the functioning of the organisation.
5. The mission statement vividly brings forth the purpose and growth direction in the prevalent cultural climate of an organisation, thus bringing into focus the style of management and functioning of the organisation. This approach draws support from people who wish to grow with the organisation.
6. The mission statement outlines a framework for organisational planning assigning definite tasks and responsibilities to each business unit.
7. The mission statement helps to set-up and develop a control mechanism for achievement of objectives.
8. Defining the mission of an organisation brings forth the hidden talent amongst the work force who take up challenges to meet the company's strategic objectives.

CHARACTERISTICS OF A MISSION STATEMENT

For a mission statement to be effective, it should have certain characteristics as discussed below. Sometimes the mission is not written down and is declared from either the actions of the management or press statements of the CEO. However, a typical mission statement should possess following characteristics.

Feasibility

The mission statement should be feasible. No company can afford to have a mission statement that would not be achievable. It should, no doubt, reflect stretched goals but must be credible and realistic. The feasibility of the mission statement depends on various resources that are available or which can be made available. The CEO of a company should make a correct assessment of resources and come out with a mission statement that may be possible to accomplish.

Precision

Using too many or too few words in a mission statement may lead to ambiguity. If too many words embody a mission statement, it may not be clearly understood by people at the functional and operating level. On the contrary, if less than the necessary number of words are used in a mission statement, the employees at operating level may derive different meanings out of it.

Similarly the mission statement should not have a narrow focus or a very broad view. For preparing a mission statement strategy managers have to create an abstraction ladder and choose appropriate words to define the mission. Defining mission as manufacturing refrigerators may be too narrow a focus. Likewise, defining the mission as just taking health care may appear very non-specific.

Clarity

The mission statement should culminate into an action program and hence brevity is the essential requirement of a mission statement. It should not contain high-sounding words which eventually do not clearly convey any action. The mission statement should be clear to employees of the company because all of them would be guided by this statement. It should be made clear to those who do not understand it through training workshops, leaflets or other forms of communication.

Motivation

The mission statement should be a source of inspiration for members of an organisation. Members of the organisation should take pride in associating themselves with their organisation through the mission statement and they should get motivated to accept the challenge and accomplish the mission. Customers and societies associated with an organisation should also feel good about the mission of the organisation.

Distinctiveness

The mission statement of an organisation should be distinct. There may be many organisations manufacturing washing machines, refrigerators, scooters, cars etc. but each one of them define their mission differently because they are basically pursuing a specific mission that exclusively belongs to them. The Mission statement should be unique for an organisation as it makes it different from the crowd, and makes an impact on minds of people associated with the organisation. It is very rare that the mission statements of any two companies are similar. Each company depending on its resources, environment, purpose, and various other conditions evolves its own mission statement.

Reflection of Major Strategy

An organisation may have different strategies but the mission statement should speak of the major strategy being followed by the company. The Company should highlight potential strengths or requirements, that is, stability, growth, leadership, business volume and so on, such that the requirement is well driven home in the minds of the employees for giving them a unified direction of growth. The major strategy along with the purpose of an organisation gives an insight to a reader about the organisation. The major strategy should also be reflected with a view to bind the organisation in a uni-directional effort to meet objectives. Stating the major strategy in mission statement gives an insight to the employees regarding the course of action that they have to jointly take.

METHODS TO ACCOMPLISH OBJECTIVES

The mission statement should indicate the manner in which the organisation's objectives would be achieved. Since the mission statement is related to a specific time-period, the reflection of methods of accomplishing the objective gives a better understanding of the mission of a company and the way defined objectives are to be pursued. Different companies have different kinds of culture and working environments typical to that specific company, due to which text book methodologies for imbibing mission statements do not work and each company has to evolve its own methodologies suited to its own specific working conditions. However, some generalisations with regard to this are possible.

FORMULATING A BUSINESS MISSION STATEMENT

A Business Mission Statement usually evolves during the inception of a business itself. A person or a group of people who think of starting a business have an idea of the mission of their business. Many organisations formulate their mission statement from the tasks that they are supposed to perform due to national priorities which become their own priorities also (Refer Exhibit 3.4). In case of government undertakings in India, which were born from the vision of Pandit Jawaharlal Nehru, a host of these companies including some big business houses in private sectors adopted a mission of nation-building in their own area of work.

Exhibit 3.4 The AGRO Industry Competitiveness in the Globalised Era

A recent study conducted in Punjab University revealed that the Indian agricultural industry in punjab could not be competitive in any of the years during the one and half decade ending 1994-95. (Gill and Brar; 1996) In order to make quick money, the Indian farmers are switching over to cash crops which are non-food in nature. This may lead to shortage of food in the long run say by 2030 A.D. Thus the strategies for agro-industry should be designed with social responsibility towards environment, food, and employment. The MNCs in this area present more challenges than the opportunities and the number of companies entering into agro-related business in India has surged by 150 percent during 1996. This trend has already started replacing the small companies-based agrarian economy into MNC controlled agro-industry.

The following strategies are suggested in this area:

1. The Indian agro-industry should develop its own processing, packaging, and marketing ventures.
2. Adequate capital resources must be pumped in, to develop irrigation, water-sheds, and storage etc.
3. Better post-harvest management practices must be developed to meet high quality needs (minimal toxic and basic agricultural output).

Source: Dr. K. Rangarajan, *Vulnerability of Indian Agro Industry.*

Due to changes in economic policies that this country has witnessed during the past five decades, these public sector undertakings are now undergoing a change. Earlier these companies pursued the sole objective of nation-building, but today, due to the changed business scenario in the country, they are evolving new business mission statements.

In fact, business mission statements cannot remain the same as the organisations grow. Usually the entrepreneurs develop corporate philosophy based on philosophy of the country and its needs, because this is the sole purpose based on which a country defines its policies for the purpose of growth. The policies may not be very clearly cut out in some cases, and it may take some time before these policies take their final shape. Changes in policies is an on-going process and these are modified, re-made, or discarded altogether. The impact of policies may not be clear in the minds of corporations but as time passes the impact of policies becomes evident, necessitating changes in policy to make required corrections. Organisations may not be clear in their minds in the beginning on the actions and the mission that they would like to pursue, which would be in tune with their aspirations and strengths, but it takes a definite shape over a period of time. In India, some of the smaller organisations which were born only to earn profits slowly transformed into corporates over a period of time and framed their business missions after maturity. The following issues work subconsciously while doing this exercise of formulating a mission statement.

1. Confidence that the product or service in question will reap benefits to give profits and create surplus.
2. Confidence that functions desired from a product will satisfy specific needs of customers.
3. Confidence regarding a chosen technology that would meet required production volume and desired quality.

4. Confidence regarding ability of an organisation to meet the requirements of a customer or even surpass it for a product or service.

$$\text{Quality to customer} = \frac{\text{Quality}\uparrow}{\text{Cost}\downarrow} \times \frac{\text{Service}\uparrow}{\text{Delivery}\downarrow}$$

5. Confidence that the business will grow and be more useful to society.
6. Confidence that the business will build a good public image and satisfy personal goals of employees working for the organisation.
7. Confidence that the driving forces of business, that is, customers, stake holders, technology, market conditions etc. will be favorable, and business objectives would be well adopted and communicated to the line below.

The major business strategies contribute to development of the business mission through discussions and deliberations in an informal manner. CEOs of companies have a significant role to play in this regard and have to speak out their mind at these deliberations. They get formally and informally involved in this exercise. Sometimes consultants may be of some help to develop clarity of thinking and development of a mission statement.

Sometimes, a business may face situations where it may become necessary to alter the mission statement. The change in environment due to competition, technology, government policies etc. may force the organisation to change its mission. The companies due to their poor performance may also want to introspect and redefine their mission.

A typical business mission statement may include a statement about products or services offered, focussed market segment or customer, technology that it may use for product quality, cost, service and delivery, growth directions, management philosophy, desired public image and self concept of company and so on.

BUSINESS DEFINITION

'What is our business?' is a pertinent question that every entrepreneur asks at some point of time. This question needs to be answered as it leads to generation of ideas, which can be further built-up by strategy managers to arrive at a business mission statement (Refer Exhibit 3.5).

Defining business is not an easy task. The employees in an organisation are often busy doing their routine work and within the available means they keep on performing to produce results. Even automation programs are developed for work which may be basically wrong. A lot of it comes from their habitual way of doing things that they have been doing during long years of service. Hence they do not directly feel the blow of change. It is only when pertinent questions are asked that employees start thinking about the true business of the company for which they work. It is through questioning that the true business in which a company is engaged, surfaces.

Exhibit 3.5 Break through Due to Information Technology

The concept of anywhere, anytime workplace is fast emerging, is facilitated by synthesis of portable and fixed information technologies. Hot desking wherein vacant desks can be used by workers of any company has reduced business overheads, homework has replaced office work through telecommuting, groupware has led to reduced costs of business meeting and discussions, and Banks and other financial institutions now offer a full range of services through financial kiosks installed at airports with service availability round the clock. The hospitals now use imaging to do off-site diagnosis taking specialized health care to hither-to-starved locations.

Source: Merilyn M. Parkar, Adapted from *Strategic Transformations and Informations Technology Paradigms for Performing while Transforming.*

PRODUCTS, PRIMARY MARKETS, AND PRINCIPAL TECHNOLOGY

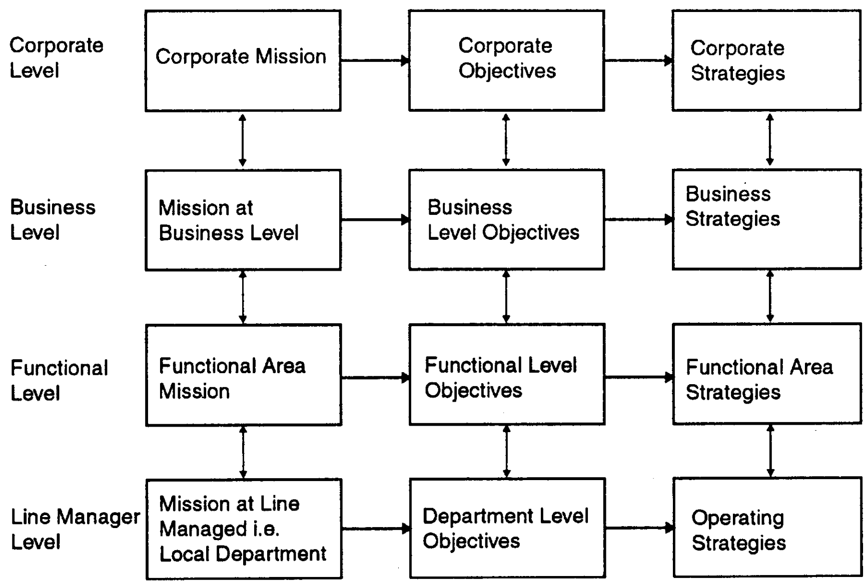
The functions and specifications of basic products and services, the primary market where the products are used and the principal technology for production and delivery to the consumers are some of the major constituents of a business mission statement. A company may be active in various fields, however, at the business level it is imperative for it to clearly identify these factors in the mission statement.

Identification of products and service is important not only from the point of view of employees working in an organisation but also for the users of product and services, who get associated with the company through these. The primary markets also need to be defined along with the principal technologies which give a definite recognition, image and status to the company.

The three factors discussed above can also be termed as the dimensions of business definition. The products and services define work that company may be doing in terms of satisfying the needs of the consumers. Products can be viewed as bundle of functions that customers expect products to perform, in return for the money spent by them in acquiring the product. As soon as a product or service stops performing, the functions for which it is intended, it is rendered useless.

Customer group or segment indicates those whose needs are being satisfied and technology indicates how the needs are being satisfied. Diagramatically Exhibit 3.6 shows these dimensions of business.

Exhibit 3.6 Tires of Mission, Objectives and Strategies in a Company



COMPANY OBJECTIVES AND GOALS

Objectives and goals that are being pursued presently are for future of the company, and hence must be carefully defined. Companies set their objectives and translate them into short and long-term goals. An effort is usually made to set measurable goals such that performance of company can be objectively worked out. Any company doing business has a will to secure its survival through continuous growth and profitability.

Survival of a firm is the first priority as it exists to satisfy needs of the stake holders, customers and other driving forces of business. Very often strategic managers neglect this aspect of goal-setting in a hurry to emphasise growth and creation of surplus. The company then faces a danger of being myopic as its focus is on short-term gains. The short-term gains are usually at the expense of long-term benefits. There appears an urgency in a company for quick hits or bargains at the cost of long-term benefits. This further leads to unplanned investments, changes, detours etc. The synergic exploitation of resources is also ignored and thus survival itself becomes quite difficult.

The profitability of a company is the most important and sought after goal. Various companies have different ways of measuring profits. However, measurement of profits over a long period of time gives a clear idea of the performance of the company. The method thus evolved finds better acceptance with employees and stake holders.

The short-term profits may endanger the existence of a company and we ma· call it as its strategy myopia. Some companies may decide reaping short term profits as part of their strategy.

In an environment, which is charged with competition, the growth of a company is tied to its survival and profits. Growth does not merely mean growth in number of markets served, but growth in variety of production and services and so on, which lead to improvements in competitive edge and consequently in the performance of the company. Growth may be reactive or proactive. A correct balance is to be struck between growth and opportune diversifications maintaining the parameters that guide various growth decisions. Hence an optimum flexibility has to be built in the structure of organisation to make a quick shift-over whenever required (Refer Exhibit 3.7).

Exhibit 3.7 Leveraging Human Resources through Reduction of Number of Layers

The number of layers in the Crompton Greaves management structure have been reduced to create a structure of 4 by 4. This resulted in a pyramid wherein a general manager is separated by the workers by just four layers and each person at supervisory level has a minimum of four people reporting. If less than four are there, it may lead to interference and consequently lower level of empowerment of people.

Source: K.K. Nohria, "Leveraging Human Resources," *Business Today*, September 22, 1998.

The objectives of an organisation play a very significant role in creating an environment for growth in desired direction. The role of objectives is as follows:

1. The objectives establish a relationship between an organisation and the environment in which it exists. The environment consists of various entities, that is, society, politics, employees, customers, stake holders etc. who affect objectives and also the method of achieving defined objectives.
2. Objectives are the driving force for an organisation. The employees make a unified effort to accomplish them, thereby developing a clarity of mission and purpose.
3. Strategic decision-making processes become more sharply focussed due to objectives, and a code of behaviour is also set for meeting the targets. The strategic decisions are taken around agreed objectives.
4. Objectives lead to evolution of standards for performance evaluation and measures to control and guide performance. Standards for individual performance are also generated since it is the individual performance that eventually gets translated to organisational performance.

5. Objectives tend to develop conducive environment, understanding of business environment, organisation, personal development, required knowledge, skills and attitude etc.

CHARACTERISTICS OF OBJECTIVES

While formulating objectives, one should understand the purpose for which they are being outlined and should be defined with the following characteristics.

1. Objectives should be defined in a manner in which they can be understood by the concerned people. Vague and hazy ideas cannot be called objectives as they may lead to more confusion. Objectives should be simple and easy to understand by all people in an organisation in the same sense as they are meant to be understood. This aspect is to be carefully ensured.
2. Objectives must be clear, quantified and specific. Mention of Increasing sales, turn over, quality etc. do not convey anything. However, mention of increasing sales by 10%, increasing turnover by 20%, or meeting requirements of quality systems as per ISO 9000 makes them more specific and clear for those who have to act to accomplish them. It implies that these should be achieved, in specific terms.
3. Objectives must essentially be related to a time-dimension. The business situations today undergo extremely fast changes, and not relating objectives to a time-dimension may prove to be very costly for companies. Objectives, when related to time, communicate more specific information. Objectives without a time-frame do not yield much results. In fact objectives should essentially be linked to time-frames in these times of fast change where quick obsolescence of products and concepts has engulfed almost all business activities.
4. It should be possible to measure and control the factors which define objectives. This leads to development of a mechanism in a company, by way of which various parameters are measured and controlled in order to accomplish objectives.
5. Objectives should be optimally stretched in such a way that they pose a challenge to the work force and motivate them to work better. This leads to improved performance of a company, and strategy managers can take up the challenge for achieving an improved status for their company. It is necessary that the stretched goals be set in agreement with employees of a company. This develops a sense of belonging in the minds of employees of a company.
6. Objectives should correlate with each other. This is required to avoid conflict within two related departments. Consider that a company sets an objective for capturing the business of renovation and modernisation of power equipments such that it gets forty percent business in north and east zone in two years time and the concerned manufacturing department is not geared to meet this committment then a conflict may arise. The objective should offer

synergic advantages. Often it is found that the marketing divisions aim at handling variety of products, whereas production departments aim at variety reduction. The objectives set should strike an optimum balance between the two.

7. Objectives must be set keeping the practical constraint in view. The strategy managers must be well aware of the internal and external constraints. The internal constraints could be availability of raw material, trained and skilled personnel, bottlenecks due to a machine tool etc. Usually scarce resources are high in demand and various profit centers may competing for the scarce resources. The external constraints may be legal and statutory requirements, norms of pollution and effluents and companies have to keep these constraints in mind before arriving at the final objectives.

ISSUES IN SETTING THE OBJECTIVES

Strategic managers often find objective setting a very complex process. Integration of various functions of management must be made to arrive at meaningful objectives (Refer Exhibit 3.8). In fact the process of integration of various functions of an organisation itself means that one function cannot afford to ignore understanding of various other functions, and hence they essentially have to think in terms of synergising their efforts to meet common objectives. As an organisation, they face some common problems that need to be addressed to create a common focus for employees. Some of these issues are discussed here.

Exhibit 3.8 The Change Process and CEOs

CEOs usually face a dilemma while attempting to re-mould their company's strategies, structure, operations, marketing policies etc. as per the changing environment, with respect to various transformations, which are resisted by divisions of the company. A survey of 48 CEOs conducted by the Economist Intelligence Unit, India and consulting firm A. T. Kearney reveal the following four changes that have been implemented by about 50 percent of the companies surveyed.

- Restructuring the top management
- Market development
- Management of costs
- Development of core competencies

The survey indicated the problems assailing the Indian companies which are as following:

- Top-heavy organisation
- Inefficiency in management of costs list at all stages
- Unrelated diversification

The biggest impediment to change is finding suitable leaders to spearhead the changes. Various changes which were assessed were

- Strategic alliances
- Succession planning
- Senior management re-organisation
- New markets (Geographic)
- Business process re-engineering
- New products service
- New lines of business
- Mergers and acquisitions
- Major cost reductions

Source: *Business Today*, Nov–Dec, 1998.

Specification of Objectives

Objectives at all levels cannot be defined with complete specificity and accuracy. However, organisations do make an effort to be as specific as possible. The specificity of objectives varies with the level at which they are defined. Generally speaking, the objectives at corporate level are not very specific and are more qualitative in nature. Objectives at business level are more specific, and at operational levels objectives become distinct and are defined in specific terms. However, when a company says it would cross rupees two thousand crore mark by the year 2000, it specifically talks in measurable terms. Usually financial objective are more specific as these can be objectively expressed.

Multiple Nature of Objectives

The business operations of a corporate sector are spread out to many businesses. Similarly a SBU has many functions to perform and hence it is imperative that objectives should be of multiple nature. The objectives should cover all the aspects of business like growth, economy, social responsibility etc. The multiplicity dimension also creeps in due to the various organisational levels at which objectives are defined. When we calculate the permutations and combinations of various factors discussed above, we may find that objectives may be numerous.

However, it may not be practical for an organisation to have many or only a few objectives. Too many objectives may not be properly inter-related and may clash with one another and an optimisation exercise may be required. Too many objectives may also lead to confusion amongst the employees. Covering of too less a number of aspects of the organisation in the objectives may lead to neglect of many vital aspects. Both situations are unrealistic. The strategy managers have to optimally select the necessary number of objectives and effectively accomplish them.

Time Frame

Objectives are bound by a time-frame. Organisations may have short-term and long-term objectives. However, both kinds are related to a definite time-frame. It is important that the short-term and long-term objectives must be integrated to get synergy. It is usually the case that long-term objectives are generalised in nature compared to short-term objectives which are more specific and measurable. In fact one long-term objective may contain many short-term objectives over a definite time-period. The short-term objectives may also be arrived as due to opportunities or threats faced by a company or a business unit and they are therefore bound by a time-frame.

Measurability

It is possible to assess accomplishment of an objective only when it is quantifiable in some way. The basis of accomplishment of an objective must be defined and known to the people for whom they are laid down. This brings in more clarity towards accomplishment of objectives and it is also useful to strategy managers for making decisions about various policies. It is also possible that the strategy managers would try to devise a method of measuring an objective. The verifiability of an objective may be either quantitative or qualitative or both. In case an objective is quantifiable, it is quite easy for a strategy manager to devise some way of measuring it. Some examples of quantifiable objectives may be sales volume, percentage of market share, cycle-time reduction, cost reductions, etc. Sometimes it may not be possible to quantify the objectives and they may be purely qualitative like creating safety conditions, improving morale of people, and improving working environment in a company. Regarding qualitative objectives, it may not be possible to directly measure them but strategy managers may develop indirect indicators to verify them. For example, creating safety conditions can be measured by number of accidents per month or per year, consumption of first aid material etc.

Real Versus Pseudo Objectives

Organisations set certain norms of customer service and care, quality, cost etc., but as time passes by these objectives lose their meaning. The organisations celebrate productivity day, quality day and customer service day, etc. and re-dedicate themselves to these objectives. In fact, they set these objectives and attempt to accomplish them but hardly make any real effort to meet them as they can very well survive even without accomplishing them. Their operational objectives are very important to them. If we take example of Indian Railways, we find repeated announcements expressing deep regret over delay of trains but the waiting passengers rarely come to know of the real cause of delays or any action on the part of Indian railways to ensure prevention of these problems. Similarly, the Government organisations proudly announce customer service as their first motto but the clerk sitting behind the desk hardly responds to the request of the people. Often people find a display in which a nurse is seen requesting people to keep silence in hospital, but one finds a nurse just below the display shouting at the top of her voice at some patient or a ward-boy. All these examples indicate that organisations do have pseudo-objectives and real objectives, and strategy managers have to clearly distinguish between them as all objectives require some resource allocation.

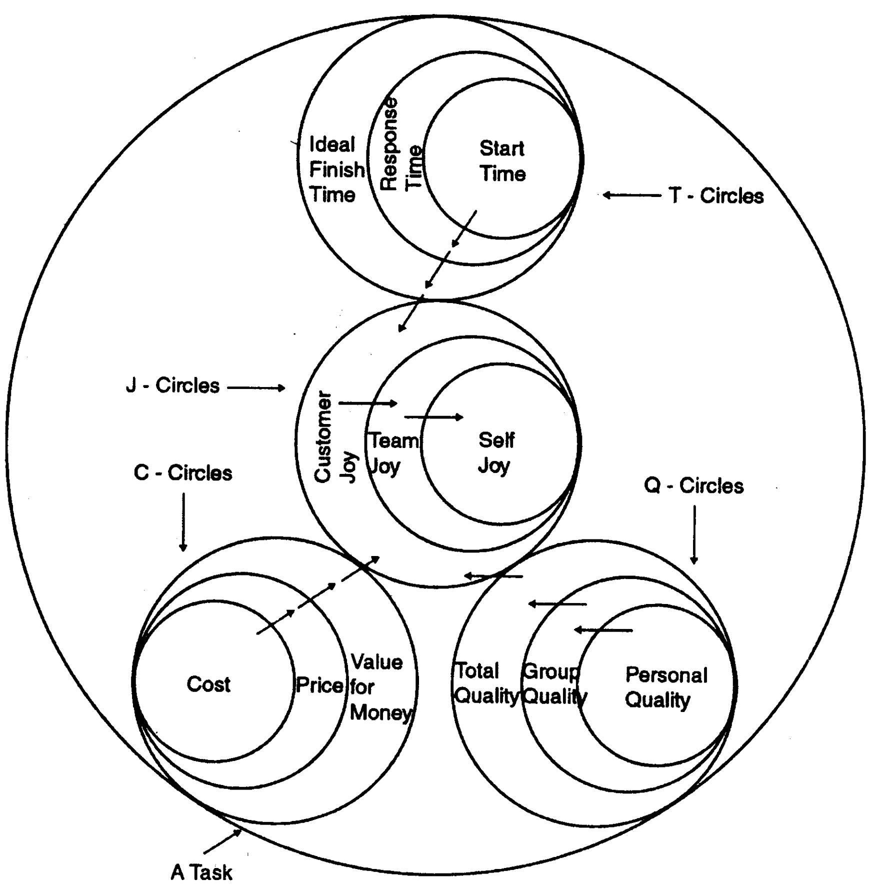
Areas of Setting Objectives

Objectives are to be set in all areas where performance of an organisation is vital. Various authors have defined areas for setting objective. However, they vary widely with the type of industry, business situations, economic conditions etc. There cannot be one best prescriptive approach for areas of setting objectives, and surveys in many companies have indicated that the key thrust areas for various companies are different, and setting objective depends to a great extent on this aspect. Some vital areas for setting objectives may be market status, innovation and creativity, productivity, resources, profitability, performance of managers, training of personnel, public responsibility, time-cycle, quality and so on. In case of a car or scooter manufacturer the objective may be to produce a defined number of vehicles per year, and for a company engaged in generating power it may be number of units produced per annum and the number of breakdowns. Railways may be interested in judging their performance by measurement of passenger traffic and freight handling, whereas the insurance companies may be interested in achieving targets such as number of policies executed, sum assured, expense income ratio etc.

HOW THE OBJECTIVES ARE EVOLVED

Various forces that drive the strategic managers for setting objectives for a company are many in number (Refer Exhibit 3.9). However, generally speaking the following factors play a significant role in setting the objectives.

Exhibit 3.9 Customer Joy – The Key to Competitiveness Adesh Jain, Director-in-charge, Centre for Excellence in Project Management



Driving Forces of Business

The competition, stakeholders, technology and customers etc. are some of the important driving forces of a business. Various other factors present in the external environment of a company also have their impact on setting of objectives. Sometimes the interests of these factors may be congruent while at other times they may be conflicting, and hence a sum total effect of these interests is to be taken into account while setting the objectives. A set of expectations of customers and stake holders must also be considered while setting the objectives. A study of all these factors and the driving forces of business are necessary while formulating the objectives.

Clout and Resource Utilisation

Every organisation has a definite amount of resources and utilisation of these resources by various functions depends on their need and also on the clout enjoyed by that group of managers (Refer Exhibit 3.10). Resources help in accomplishment of the objectives and for setting realistic objectives. Resource mobilisation is very important for accomplishing the set targets because without the required resources it may be impossible to accomplish the task of achieving desired results. Various functional units in an organisation have different decision-making powers and according to the power wielded by them, they share the resources for realising the objectives. Sometimes a dominant group of strategy managers or board of directors drive the group to formulate objectives in congruence with their own views. However, with changing and dynamic relationships that exist within an organisation the same relative importance of the objectives may not finally be maintained as objectives also relate to survival and the very existence of a company.

Exhibit 3.10 Competing on People's Strengths

The basic problem is not getting enough buyers for the product, but getting the right to sell it. Tupperware's CEO, Alan D. Kennedy feels that their competition is not with manufacturers of containers, but it is with those who compete for employing a good sales-force. This could be a new trend in defining competition as it is emerging today.

Source: *Business Today,* November 22, 1998.

Value Systems

Each organisation has its own set of values which help in guiding the setting of objectives. The strategy managers cannot ignore these value systems while setting the objectives. Values help clarify what is good and what is bad or what is desirable and what is undesirable. Nowadays, when the rules of business have assumed new dimensions, values cherished by the CEO of a company may play a significant role in deciding upon the objectives and the corresponding strategies (Refer Exhibit 3.11).

Exhibit 3.11 Guidelines to be Resolute

Sometimes managers face confronting situations with people who insist on being difficult and quite often the argument leads to a discussion on who is right and who is wrong. In such situations one cannot have the kind of relationships that are congenial for working together. To tackle such situations the following suggestions may help.

- It is prudent to make friends because actions have reactions (Newton's II Law), and sometimes are more forceful.
- Highlight the cost of conflict or the loss in terms of hours, productivity, relationship. Also highlight recurring losses.
- Highlight the benefits that your creative solutions can offer to them.
- People like to be recognized for their contributions, hence give them the credit for the resolutions.
- Find out who can influence. Take his help
- Don't give up by any chance.

Source: *Business Today,* Nov–Dec. 1998.

Track Record

It is important that the past history of company be known, analyzed and kept in view while formulating the objectives. In the earlier days of nation-building the public sector companies did not bother much about the costs, profits and their customers etc., but in these changed times of liberal economic policies, their objectives are decided keeping quality and costs in focus. Some companies may choose to radically change their way of doing business keeping in view the changed aspirations of its customers.

Company Philosophy

Usually the company mission contains the company's philosophy. The company philosophy states the basic values, beliefs, aspirations and priorities of a company. Strategy managers focus on the company's philosophy while making strategies. It is found that most of the companies adopt a similar value system which is full of platitudes and hence their company philosophy statements hardly differ from each other. Most of these company philosophy statements appear like public relation statements. However, the strategy managers need to understand them and keep them in focus while making company strategies. Understanding these statements entails their threadbare analysis and arriving at practical and meaningful statements. Various key areas in which company philosophy is usually expressed are marketing, finance, control, human resources, product range selection etc. The company philosophy statement with regard to these key areas gives more clarity about a company as compared with its mission statement. Exhibit 3.12 shows the philosophy statement of a company engaged in marketing of consumer durables.

Exhibit 3.12 Company Philosophy Statement

Customer and Marketing Focus

a. The company will be continuously customer-focussed to meet their expectations, and strive to be better than the competitors.
b. The company will maintain effective distribution channels and develop capabilities to identify new trends and emerging markets for meeting customer's needs much to their delight.
c. The company will strive to give better quality at lower costs, coupled with quick and satisfactory service.
d. The company will maintain the latest modern facilities with attractive, clean and orderly shopping complexes that will make shopping a pleasure for the customers.

Management Roles

a. The company requires scientifically managed outlets with measurable results.
b. The company believes in 'kaizen' and permit openers to new ideas for continuous small improvements.
c. The company expects the managers to be capable of planning, delegating, motivating, controlling, and guiding people to achieve measurable results.
d. The company will promote team plying wherein good communication, clear policies, effective controls, and sincerity would be valued.
e. The company will expect acknowledgement of mistakes so that one could learn from them, and not repeat them again.

Human Resources

a. The company will develop and maintain competent and dedicated teams of people.
b. The company will foster a climate for motivation, growth, courage and integrity.
c. The company will recognise professionals for their outstanding contributions and provide them opportunities to take up challenges.
d. Redeployment of personnel as per need will be the company's key to training and development.

Finance and Control

a. The company will operate on a sound financial plan that will create surplus for growth and optimum return on investments.
b. The company will operate on systems which will indicate potential failures so that they could be averted in time.

PUBLIC IMAGE

The values and attitudes of people are important for any company as social factors affect the strategic management decisions. This is more important for a growing company as it has to form an image in society. For a company to be successful in the society where it exists it has to consider the social norms valued by the society (Refer Exhibit 3.13). The expectations that the public has from a business should be taken care of by the company as this aspect is vital for its survival and growth. Tooth paste is very personal to people and hence it enjoys a brand loyalty. In a society where herbal ingredients are valued by the users, the presence of turmeric or meswak is advertised by the manufacturer to woo his customers. Any ingredient which is a taboo for users is avoided in the manufacture of the item. The soft drink similarly enjoys a brand loyalty and a news item in the paper about traces of lizard eggs in the water used for soft drinks would definitely mar its image and the product may never be able to take off. A courier service company may build a public image for fast delivery of goods, and any action by the company contrary to this public image may be extremely harmful to the company.

Exhibit 3.13 The Legal Aspects in Advertising Business

Fena Ltd. submitted before a two-member bench of the MRTPC commission, that HLL should be restrained form referring to lemon as a cleansing agent in their products. The company should be asked to remove all references to lemon as the cleaning power in the advertisement and packaging of Wheel as the detergent did not contain any lemon.

Source: *Economic Times,* February 24, 1999. (PIT)

Sometimes firms stand up to re-emphasise positive aspects of their operations, products or services when a negative public image of their company is formed. This is true even for a country like India, which is known for its nuclear programs for peace and which had to speak out to correct its public image after its nuclear tests at Pokhran.

The concern for public image is generally not reactive but is pro-active. When public image tends to become negative, it stimulates greater response from the company. However, any company will be concerned about its public image even when there is no publicity at all. The organisations see to it that they are projected as credible organisations and in complete control over their functions for serving their customers.

SELF-CONCEPT OF A COMPANY

Every company has a self-concept like any human being. A company has to evaluate its strengths and weaknesses to combat predatory business situations and successfully remove negative images created in the minds of its customers. The self-concept is the public image of a company that makes it unique. The identity of a company develops over long period of time and a company is known in society for its values, which connect it with not only its past but future also. Thus organisations have their own distinct personality. This may include its decision-making techniques, and the effect of these on organisational parameters are more important than effect on individuals of a company. Depending on this self-concept of the company, the society reacts to it. The response that an organisation gets from the society is dependent on the perception of the image that the company builds up based on its self-concept. This self-concept thus guides the behaviour and attitude of the people towards their company. The self-concept of a company must be reflected in the mission statement of the company and is to be accomplished by the employees the company.

CRITICAL SUCCESS FACTORS

Strategy Managers have a deep concern for critical success factors and concentrate on them. These factors are vital for survival and growth of a company. Identification of these critical success factors is not simple and requires deep introspection in company affairs. These success factors are not only the competitive edges but include all those factors which may be crucial for success of an organization. The critical success factors lead to identification of areas of resource re-deployment, technology change, reduction in time-cycle, improvement of quality etc. that is, a number of required and desired action programs. Objectives for critical success factors need to be clearly defined by strategy managers.

Study of business contexts may reveal what is happening, what is changing, and what is assuming new and more importance in the environment in which a company operates (Refer Exhibit 3.14). For some companies it may be quality or time-cycle for development or timely service or any other requirement. The cost of inaction for a company may be worked out to highlight the weightage of critical success factors. A typical company dealing with consumer products, as a result of an exercise on identification of critical success factors may come out with the following :

1. The existing process in the company cannot meet the needs of speed of operation. The process results in hassled staff, last minute bottle-necks, unplanned over-time payments, and missed deliveries.
2. The main focus is on reducing our costs and we are hardly bothered about the needs of the consumers.
3. We have a rigid organisation which is incapable of adapting itself to the fast changing needs of the business.

Exhibit 3.14 SWOT Analysis of Renewable Energy Sources

Strengths

- Non-depleting nature
- Environmentally benign
- Permit option for continual growth

- Natural re-cyclable resources
- Can be used with modular design concept
- Decentralization possible
- Low running cost
- Simple technology
- Generates employment

Weaknesses

- Seasonal availability
- Requires more space
- Labour-oriented
- Huge capital investment required
- Financially not attractive
- Lower capacity utilisation

Opportunities

- More awareness towards environment
- Emerging policies at International and National levels
- Scope for rural electrification
- Employment problem on the rise
- Government supports
- Offers social benefits

Threats

- Lower R & D efforts
- Incentives/subsidies temporary
- Risking costs
- Social problems

Source: R.Natarajan, "The Energy, Environment and Ecology – Dimensions of Sustainable Development", adapted from *Technorama* September 1998.

The management may look at the above statements and decide that they will have to change. The statements also give clues on what changes are required. The strategy managers will then evolve methods for making the changes happen in a systematic manner and define objectives also for each of the critical success factors.

APPROACHING THE DRIVING FORCES OF BUSINESS

The "here and now" crisis of competition that is now emerging worldwide has drastically changed business situations. The business cycles have become most unpredictable, as in today's environment markets, customer demands, product life-cycles, technological changes, nature of competition, rules of business etc. are all undergoing fast changes.

Consumers demand more as they know that they can get more. The consumer preferences and requirements must be known, for surviving in an environment charged with competition (Refer Exhibit 3.15). The consumer has a choice to go to any other manufacturer who will not only deliver goods of superior quality at lower price but is also ready to participate in success of his client. The consumer has become a driving force for the business as is evident in advertisements of washing machines, detergents, vehicles etc. There has been an information explosion on television and shopping has become a matter of a simple phone call. Companies need consumers more than the consumers need them as there are numerous choices available in the market.

Exhibit 3.15 Maruti's Winds of Change

MUL being a 'board-driven' company ensures that time taken for decision-making and implementation is shortened and the company is more responsive to market. In order to compete in the market and maintain its leadership it has urged its vendors to cut the costs by 20%. This an on-going process.

Source: Based on Interview of Yoshio Saito, Chairman of MUL Given to N. C. Mohan and J. Surya, *The Times of India*, Nov. 21, 1998.

Competition in terms of price, selection, quality, service, delivery, etc. has become more severe. Today, all the global brands are free to compete in the same market. Stiff competition makes products and services obsolete very fast as new companies come up with better designed products before the stalwarts can even think of it. Strategy managers will have to consider all these factors along with legitimate claims of the stake-holders of the company. Claims of investors, employees, and outsiders affected by the strategies of a company will have to be heard. The government wants adherence to legislations, the unions want worker's interests to be protected, the competitors want fair competition and the strategy manager has to consider the view points of all these driving forces of business while formulating the mission statement.

The major steps consist of

1. Identification of driving forces of business.
2. Understanding the specific claims and requirements of those driving forces.
3. Arriving at a workable solution that would decide the future of the company.
4. Co-ordination of claims and requirements such that they are optimally met, keeping in view any other constraints.

Social responsibility is the common denominator and the basis of claims of all above driving forces of business. Discharge of pollutants, disposal of waste and conservation of natural resources etc. are pertinent issues which must be addressed by the strategy managers (Refer Exhibit 3.16). The companies should be open to social audits wherein the social responsibility of a company must be evaluated and conformance of the company to social responsibility must be assessed. Many companies mention their social achievements in their annual reports. The true profits should be claimed only after paying social dues.

Exhibit 3.16 IT and the Government's Social Responsibility

Use of information technology by the people would eventually lead to a form transparent and efficient government and this would be the final test of policy initiations of the government. In various applications, that is, verifying the land records to filling up application forms for ration cards, passports, and driving licences, life of an Indian is miserable. He is harassed and frustrated by the bureaucracy. There is hardly any transparency and accountability within the government departments and people are virtually up against a wall. The government is sitting on a pile of data which should be used to make life of people more easy and leading to transparency and freedom from commotion. For this the local content has to be increased as done by C-DAC which has made e-mail possible in Hindi.

Sources: Sanjay Anand, adapted from "What Do You Want? Click The Mouse," *The Sunday Times of India,* December 27, 1998.

QUESTIONS

1. What do you understand by vision and business mission statement of a company?
2. What is the need for a business mission statement in a company?
3. What are the characteristics of a business mission statement?
4. What are the steps in formulating a business mission statement?
5. How is a business defined? What do you understand by company objectives and goals?
6. What are various characteristics of objectives?
7. Discuss various issues involved in setting the objectives?
8. What are the areas in a company requing setting of objectives?
9. What is the process of evolution of objectives?
10. What do understand by a company's philosophy statement?
11. What is the importance of public image of a company?
12. What do you understand by self concept of a company?
13. Discuss various critical success factors of a company?

CHAPTER

4

ENVIRONMENT SCANNING AND ANALYSIS

The changes taking place in the present days make us aware that it is the learners who inherit the future because they continue the process of learning. The learned on the other hand, find themselves at a loss and if they do not march in tune with the changing time, they face obsolescence. The same logic holds good for companies also. The changes are so frequent and fundamental in nature that unless companies keep in pace with the changes taking place around them, they may become outdated and may eventually go into oblivion. It is not only important for a company to evaluate its current strategy but it is also vital for it to know how its strategy will work in the future environment (Refer Exhibit 4.1).

Exhibit 4.1 Customer Preferences

The public sector banks have been quite unresponsive and the staff had been rude to the customers. Added to this is the repayment bureaucracy which has driven thousands of customers to new private sector banks. The new competition has hit SBI. With its 2000 branches and deposits ranging to more than Rs.110,000 crores, the profits earned are around Rs.1300 crores in constrast to ICICI Bank, Global Trust, HDFC and Centurion which with 150 branches and Rs.9000 crore deposit have earned profits around Rs.226 crores implying that the new banks are skimming off the cream of depositors leaving behind millions of small depositors for public sector banks to deal with, at higher costs.

With rising competition SBI has come with some of the significant changes in strategies.

1. It would set up new branches in prosperous residential areas and would target at upper and middle classes.
2. The minimum balance to be maintained in accounts would be Rs.10000 and Rs.5000.

3. These new branches would have uniform décor with central air conditioning and full computerisation.
4. Staff would be young and motivated.
5. ATMs will be installed.

Source: Roshni Rao, "Winning Back the Cream Customers", *Business World*, May 1998.

The environment consists of all that is outside an organisation and that affects it. The environmental factors which are largely uncontrollable influence the choice of strategies, related organisational structure, and the business processes. Every organisation is involved in some kind of business process as a result of which a company delivers goods required by its users. Business processes which have inputs and related outputs, take place in an environment which surrounds an organisation.

Environment can be categorised as *remote* and *immediate*. The operating environment which surrounds a company and which immediately affects it is called as the immediate environment whereas remote environment indirectly affects the performance of a company. An environment consists of factors like government policies, technology, social fabric of society, customer's needs, laws, regulations, etc. which in some way or the other affect working of an organisation. Since environment is complex and very dynamic in nature it is quite difficult for strategy managers to be always accurate about the future. Scientific approach in the assessment of environment is required for guiding strategy managers for formulating their future strategies (Refer Exhibit 4.2).

Exhibit 4.2 Future Organisational Structures

Peter Cochrance, Head of Research at British telecom believes that products of future will demand unstructured organisations where highly creative and innovative individuals will work. Due to need of customer for a structured organisation for his interaction, organisations will become system integrators with facilitating structures which will be formed to achieve specific objectives and will be later on dispanded.

Source: Business Today, September 22, 1998.

The problem of environmental scanning would be oversimplified by assuming that future would be always similar to the past. This assumption may even prove to be fatal for companies. The companies must therefore prudently analyse their environment for developing new alternatives and new ways of doing their business to attain a desired position rather than extrapolating what they had been doing in the past.

WHY ENVIRONMENTAL ANALYSIS

The strategies that a company may adopt is influenced by the environment. An organisation cannot keep itself insulated from the environment. It cannot take decisions on policies and performance, independent of the happenings in the environment around it, as it affects the strategic decisions required to be taken by a company. An analysis of environment and its behaviour gives ample scope for companies to anticipate various opportunities and threats and be proactive towards them. Implies that the organisations can turn them to their maximum advantage. If companies lack direction, focus, and perception of changing business scenario, they may be able to withstand predatory competition. Many companies in India went out of business due to their myopic approach towards the changing environment. They considered themselves invincible and that nothing in the environment could deter their progress. Today we do not see some of those brand names which enjoyed supremacy in the sixties and seventies. With the markets being flooded with different designs of washing machines from Videocon, Whirlpool, Godrej, etc. a number of local manufacturers lost their market. The same is true with Vijay Super and Lambreta scooters which are no longer visible on Indian roads (Refer Exhibit 4.3).

Exhibit 4.3 Changes in Popular Brands

There have been various brands of detergents advertising "New, stronger, cleaner, extra strong". Similarly in the hyper active tooth paste market we find slogans like "all new oxygen with tooth paste, improved etc. "Companies go on extending brands with fall in share point. This syndrance is found to spread in consumer durable as well. One of the causes is technology which comes from the west which makes products obsolete at faster rate. The profits are generated through higher price tags with slogans of improved and new on it. This corporate dynamics which forces the managers to bring in some kind of change is today being seen everywhere.

Source: Adapted From "All Newly Muhamed Munner," *Economic Times,* May, 1999.

It is important for managers to scan the environment in order to know the following:

1. The various factors and their interactions taking place in the environment, which would be conducive to the strategies of the company to know how far they would be helpful in accomplishing the objectives set for company (Refer Exhibit 4.4).

Exhibit 4.4 Strategic Factors and Their Effects

Factors	Behavioural Pattern
Market size	Big markets attract big and new entry week competitors are sidelined.
Surplus capacity	Surpluses lead to downfall of price and profits
Entry or Exit barriers	Strong barriers result in protection of profits and competition
Price	More buyers buy at lower prices
Standard Products	Buyer changes the seller
Technological changes	Raise risk as obsolescence is fast
Capital	High capital requirements make investment decisions difficult. Vertical integration raised requirement of high capital
Economies of scale	Increase of volumes and increased market share for being cost competitive
Innovations	Reduce life cycle and increase risk

Source: Thompson and Strickland *Strategic Management*

2. The various factors and their interactions, that would threaten the survival and growth of a company and evolution of alternatives that would possibly turn threats into opportunities.
3. The various factors and their interactions that would generate new opportunities for the company to grow and accomplish stretched goals.
4. Targets that a company would like to formulate for itself which would be not only realistic but would also pose a challenge to motivate the workforce.

Managers are usually bogged down by their routine work. According to agreed schedules since timely completion of many interrelated tasks is very important for a company. Hence it would be unfair to expect more responsibility from these managers. Managers who do analysis of the environment find themselves better equipped to take up challenges in the changing environment and hence they are more effective. They do better analysis and to the required degree of accuracy to meet challenges of environment.

There is every possibility of doing incorrect environmental scanning and drawing wrong conclusions. A company may underestimate the environment and overestimate its own capacity. Some others may overestimate the environment and may pump in resources to carryout vigorous strategic changes. This eventually may not be required and may culminate in very costly investments for the company.

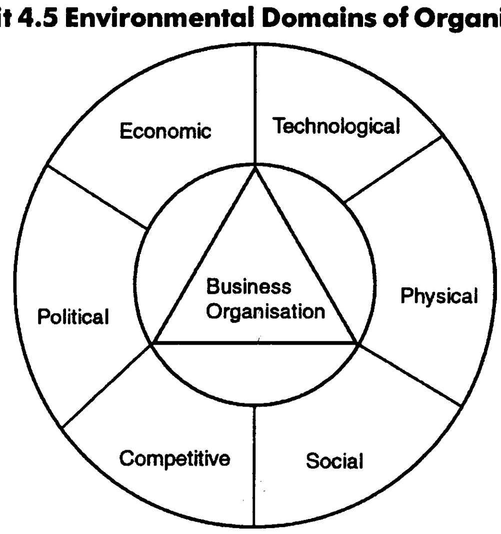
Strength, Weakness, Opportunity and Threat (SWOT) analysis at the level of a business unit is imperative. A coordinated effort within the business unit group is necessary to draw meaningful inferences from analysis. The important characteristics that emerge from the basic behaviour of an environment may be broadly categorised as predictable, partially predictable and unpredictable. Considering the partially predictable environment one may like to examine the controllable, partially controllable and uncontrollable elements in the environment which would constitute a particular behaviour of the environment. In this context we can consider the effects of demand and supply. We know that when supply of a commodity increases, its prices fall. The demand may go down or may rise due to some change in environmental situation like war, famine, change in law etc. which may be considered as uncontrollable.

The response of an organisation to an environmental change that has taken place or is in the offing may be inactive, reactive, preactive or proactive. Inactiveness refers total irresponsiveness from a company. Reactive responses are reactions of to a company certain stimulus. Preactive approach refers to constantly adjusting to changes in environment whereas proactive refers to positively bringing changes in environment favouring the company. In automobile sector, we find many preactive players with regard to pollution norms whereas in proactive category use may place Reliance group.

TYPES OF ENVIRONMENT

Remote environment consists of forces which are beyond the company's direct operating environment. Usually the remote environment is not affected by operating environmental forces of a single company. A multinational company having its headquarters in USA does not get affected by the competition faced by its subsidiary company in India. However, a change in legislature which affects the industry as a whole in which the said company operates, for example ban on certain raw material, may substantial by affect its business (Refer Exhibit 4.5).

Exhibit 4.5 Environmental Domains of Organisation



The environment consists of political, technological, social, economic and legal/ statutory factors, etc. on which the organisation does not apparently exert any significant pressure for change. This is because an organisation would be only a small entity in the target environment. However, the converse may not be very true. Environmental changes influence working of a company to a great extent. The remote environment affects the strategies of a company in some way or the other (Refer Exhibit 4.6).

Exhibit 4.6 Transition from Protected to Globalised Market

The single key priority for Indian companies would be rapidly reposition themselves to enhance their preparedness for severe competition and support their successful transition from an era of regulation and protection to the fully globalised market of 21st century. The reform process needs to focus on adapting the existing companies and creating new ones proportional to the transition rate for market economy and the extent of globalization. Competitive advantage can be derived from clearer anticipations from future and encouraging strategic innovations in the organizations.

Source: Competitiveness—the Compelling Agenda, Speech by Y.C. Daveshwar, Chairman ITC Ltd., at 87th Annual General Meeting on August 12, 1998.

In the long run companies also influence the environment. The environment, although external to an organisation, may be very close to the company in the sense that any change in the functioning, image, policies, practices, structures, rules, etc. of an organisation affect the environment in some way or the other and vice-versa is also true to a large extent. That is, any change in the environment leads to changes in the objectives, strategies and policies.

CHARACTERISTICS OF ENVIRONMENT

Business environment has several characteristics and each of these characteristics are to be clearly understood by strategy managers.

Some of the characteristics of environment are as follows.

Environment is Complex

Environment has many dimensions for a particular business. The events, conditions, and influences arise from various sources present in the environment. All these factors interact with each other to produce changes in environment. An example in the leakage of poisonous gases from the Union Carbide factory in Bhopal which caused a long legal battle affecting the business of the company and led to the closing down of the Bhopal plant.

It is quite difficult to understand interactions of all the factors present in the environment. However, strategy managers try to comprehend the various factors and their influences.

Environment has Multidimensions

When a change is triggered off in a business environment it may influence source factors and may not influence some others. Change in environment is perceived by different people in different ways. For some companies, amendment of a law may be useful while for others it may prove to be fatal. Strictures passed by the Indian government regarding emisson norms for companies in and around Agra means a lot of expenditure for them which, if made, may render all these companies financially non-viable. Opportunties present in an environment may be a threat to some company. The dimensions available to define an environment and study its effect of change are multitudes and often strategy managers find it difficult to identify all the factors.

Environment is not Static

Around a business would, changes (either fast or slow). The changes occur continuously. In the present business scenario, these are more frequent and rapid changes. Changes may occur in any scope of the environment and consequently affect other factors. The dynamism of the environment brings in many threats as well as opportunities for an organisation. Hence organisations should be more alert to changes and be more adaptable. This is necessary for this survival.

Environment Affects Business Strategies

Since the environment has a direct effect on the companies, organisations have to formulate their objectives keeping environment in focus. Hence, the formulation of policies should essentially be in true with these objectives. A strategy that is adopted by a company may fail miserably if environmental factors are not correctly perceived and addressed while formulating the strategies.

Environment is only Partially Controllable

The environment within a company can be controlled to some extent whereas the environment outside an organisation is not under our control and hence has to be assessed. The environment can only be partially influenced by one company since there are other companies in an environment. These companies have varying interests which may clash with the interest of the company attempting to influence the environment.

INFLUENCE OF ENVIRONMENT

Environment affects current strategies also the decisions on future course of strategies. The various influences of the environment may be summarised as follows.

Opportunity

An event in the environment that may be favourable to a company may be suitably exploited by it for the overall benefit of the organisation.

A business opportunity may arrive due to changes in tax structure, natural or climatic changes, changes in the competitors' product designs change in some regulation, etc.

Threat

Some event in an environment may create situations where the profit margin of a company may be reduced or its very existence may be threatened. Emergence of stiff competition, obsolescence due to new products and design, braindrain of technical expertise due to lucrative offers from competitors, etc. are some of the examples of threats.

Strength

Certain companies have inherent strengths that they build over the years viz. research and development based information, trained manpower, distribution network, widespread infrastructure, etc. which enable them to be highly competitive and to create a niche for the company in a highly competitive environment due to these core competencies.

Weakness

Some companies have inherent weaknesses, limitations or constraints which prove to be strategically disadvantageous. Some companies may depend solely on a single source for raw materials or they may be doing only seasonal business and if a season is not favourable, their profits run into rough weather (Refer Exhibit 4.7).

Exhibit 4.7 Checklist for Strengths and Weaknesses

Marketing

1. Product features
2. Range of products
3. Timely delivery
4. Quality
5. Reliability
6. Life cycle cost of product
7. Ability to gather information about markets
8. Market share
9. Product mix
10. Market expansion potential