11. Distribution channels
12. Effective mechanism for organisation for marketing
13. Effective mechanism for obtaining customer feed back
14. Imaginative, effective and result-oriented sales promotion and advertising
15. Effective pricing strategy
16. After sales service
17. Follow up of product performance
18. Product differentiation
19. Customer good will
20. Brand loyalty

Finance and Accounting

1. Flexibility in financial operations
2. Ability to raise capital in short-term
3. Ability to raise capital in long-term
4. Shared resources at corporate level
5. Lower cost of capital
6. Tax benefits
7. Financial relations with investors, stock holders etc.
8. Barriers to entry
9. High cost of entry
10. Financial leverage
11. Follow of financial strategies
12. Budget control
13. Working capital management
14. Effective cost control
15. Cost reduction progress
16. Size of financial operations
17. Effective accounting systems
18. Profit planning
19. Cost effective systems
20. Cost structures

Technical

1. Easy availability of raw materials
2. Cost effective designs
3. Lower weights
4. Better quality at lower costs

5. Innovation
6. Latest cost effective technology
7. Lower inventory costs
8. Location facilities
9. Improved material handling
10. Layouts
11. Effective make or buy decisions
12. High value addition
13. Degree of vertical integration
14. Cost/benefit ratios analysis
15. Patents
16. Effective scheduling, purchasing, etc.
17. Cost of quality
18. Waste management
19. Clearly defined business processes
20. Use of computer in manufacturing, processing, design etc.

Personnel and General Management

1. Trained personnel
2. Highly skilled employees
3. Motivated employees
4. Good human relations
5. Effective personnel policies
6. Lower problems like absenteeism, alcoholism
7. Experienced personnel
8. Defined authority and responsibility relationships
9. Flexible and agile structures
10. Clear vision and mission statements
11. Effective communication down the line
12. Congenial organisational climate
13. Top management having effective control
14. Quick and effective decision making
15. Use of information technology
16. Company's past commitment to objectives
17. Discipline
18. Known for social commitment
19. Multi skill development.
20. Effective training and placement and good paymaster

COMPONENTS OF ENVIRONMENT

Several economic factors present in the environment affect the demand, supply, services, prices, availability, etc. of products. The economic state of a company can be affected by various factors of the environment and these factors also drive the companies to change their strategies (Refer Exhibit 4.8).

Exhibit 4.8 Economy in 1998

The position of Indian economy is not significantly better than what it was in 1991-92. The figures released till December suggested that the government's fiscal deficit has already reached around 81 percent of that targeted for the full year while the overall contraction in the world trade has hit Indian exports. There has also been a sharp fall in investments coming from abroad. Only $880 million of direct and portfolio investment came in the country in the first nine months compared to $4.3 billions in the last year. The populist expenditures are rising unabated, including that of electricity subsidies which has risen four fold in the last seven years. All infrastructure industry grew by 2 percent this year compared to a 9 percent five years ago. The survey points out that the jaggernauts of decontrol and de-bureaucratisation remains unfinished.

Source: *The Indian Express,* February 25, 1999.

While studying the environment, a company would like to have information on certain specific aspects of the environment relevant to company. Some of these factors can be summarised as follows.

- Economic condition existing in a country or state, relevant to the company (Refer Exhibit 4.9).
- Stage of business cycle.
- Economic structure adopted viz. capitalistic, socialistic, mixed economy, etc.
- Structure of industry.
- Economic plans such as five year plans, annual plans, etc.
- Economic polices viz. monetary, industrial, fiscal policies, etc.
- Economic indices viz. growth of GNP, per capita income, rate of interests, balance of payments, etc.
- Policies of financial institutions, world bank, local banks, national banks, private banks, etc.
- Modes of transport and communication, power tariffs, energy sources, inflationary or deflationary situations, etc. While each of the above factors can be either helpful or may create hindrances in accomplishing their objectives, companies make use of the information to study the behaviour of markets

and frame their strategies accordingly. Some well known conclusion are also used to frame policies and strategies. Some factors like recession which lead to retrenchments resulting in poor sales, lowered interest rates leading to lowered fund requirements for investments and similar other axioms of business are deployed for framing strategies.

Exhibit 4.9 International Business and Role of Governments

The Indian government has increased investment limit for Indian companies abroad to $15 million. This enhancement of the investment limit is through fast track route to enable overseas investments in joint ventures and wholly-owned subsidiaries. Earlier this limit was $4 million.

Source: *Economic Times,* November 11, 1998.

Economic Environment

We can see the effect of economic environment in the annual reports of almost all companies. A few examples are given below.

1. During the latter half of 1996-97, the engineering industry in general and the automobile industry in particular faced a recessionary trend which was expected to accelerate with intense competition and falling prices due to stock piling causing a strain on margins. Companies had to bring down all input costs to face the situation squarely.
2. Partial decontrol of cement in 1982 resulted in quantum jumps in production capacities and supplies thus transforming the market control from manufacturer to buyer.
3. International rating agency Moody's Investor Service pointed out that high levels of non-performing loans and sluggish reforms were darkening the outlook for Indian bank's financial strength. (Source: *The Times of India,* January 14, 1999)
4. The government cleared a proposal that will enable it to raise about Rs. 7500 crore by selling its shares in six PSU through indegenious routes of cross-holding or buy back which is a deviation from the normal practice of disinvestment due to slump in the capital markets. (Source: *The Times of India,* January 14, 1999)

Regulatory Environment

The regulatory environment is constituted by various factors related to planning, promotion, and control of economic activities by the government to take care of the interests of common man. A government is usually formed by political parties which may choose to bring in some policies which may be populist in nature only for reasons of retaining their power. Some governments may take decisions focussing on the growth needs of the people thus affecting strategies chosen by various companies. Thus political factors apart from affecting strategies chosen by managers, also influence the legal and other factors which govern various parameters of business strategies (Refer Exhibit 4.10). There are a number of areas like fair-trade practices, tax structures and related laws, minimum wage legislation, laws of contracts and agreements, laws related to pollution, pricing policies, interest rates, rate of inflation, growth trends, etc. which must be considered while formulating strategies (Refer Exhibit 4.11).

Exhibit 4.10 Change in Government Causes Uncertainity in Business Environment of Small Scale Industries

The government decision to lower the ceiling for fixed investment in small scale units from Rs 3 crores to Rs 1 crore has thrown into uncertainity the fate of those units which have come up in the intervening period, i.e. during the period of fall of United Front government and BJP coming to power. This lowering of ceiling may restrict investments in modernisation of plants and equipment and may eventually lead to sickness of these units.

Source: *"Business Standard,* February 19, 1999.

Exhibit 4.11 Product Patents, Globalisation Effects in Drug Industry

There have been quantum changes in the drug industry in the last two decades. The countries can no more be kept insulated and behave as islands. Various organisations are taking advantage of their core companies to grow in this environment which has resulted in strategic alliances between global giants. The mergers have been transnational in nature. The mergers have been to remove the weaknesses as a result of fierce competitiveness.

The mergers in India will help develop synergies thus giving organisations a critical mass to stand to the MNC competition. A typical example in this regard is take over by Nicholas Piramal (India) of Boechringer and Mannheim and Roche. Another example is that of Ranbaxy. It is pertinent to note that with a few exceptions, Indian pharmaceutical companies look for a strong R & D support and have largely flourished on reverse engineering strengths. Synergy is vital while merging but in the process companies also widen their therapeutic base.

Another trend is that of brand acquisitions where money involved is less and process is free of legal hassles. In this series Duphar Interfram sold Crocin brand to Smithkline Beecham and Knoll sold Coldarin to Johnson & Johnson. The liberation of Indian economy will attract more MNCs to invest, however, MNCs have enormous resources compared to their Indian competitors. The entire Indian pharma turnover may be less than the sales of Glaxo's Zinctac. The Indian companies at home enjoy some advantages viz. a large, skilled and trained technical manpower. The resource is cheap and in abundance.

Source: Rajeev Merchant, Product Patents—Planning for the Future *Indian Management*, Jan.–Feb. 1999.

In the past, the Indian Economy was a protected one and so the economic impact of international forces was largely discounted. After globalisation of economy this factor has assumed a greater significance. Some of the industries may be influenced by the European Economic Community, Organisation of Petroleum Exporting Countries, and other coalitions of third world countries. The financial institutions viz. World Bank etc. also significantly affect the strategies of various companies (Refer Exhibits 4.12, 4.13 and 4.14).

Exhibit 4.12 Laws and Regulations Affecting Business (I)

General Agreement on Tariffs and Trade (GATT) by India is for protecting the domestic market. GATT and Word Trade Organisation (WTO) under article 20, allow countries to restrict imports of certain commodities and goods if dependence on large volume of imports of such good threaten national security. Under this provision the government which are using the benefits, are required to publish a list of goods placed under article 20 so that other countries become aware of what goods are on the list and where does the domestic industry enjoy legitimised protection.

India has put goods ranging from fertilizers and pharmaceutical products to gold and pesticides under this article. From the European Union (EU) many companies are keen to export fertilizers and pesticides to India. These companies are from Germany, Italy, France, Britain etc. They also want to penetrate pharmaceutical market in India which has been protected for decades.

Source: "Economy and Business", *Hindustan Times*, January 12, 1999.

Exhibit 4.13 The Euro Effect

Single currency should make life easier and also lead to fall in prices of companies doing business in Europe due to birth of euro. The European market and its predecessor, common market which have existed for 40 years probably never thought of it to be a single market, however, many international companies treated Europe as one big market since beginning. In the near future, euro would create pressure for a global currency as the two big rival currencies viz. dollar and yen, in the part, have created turmoils in foreign exchange markets. It is expected that dollar and euro will become more volatile creating bad times for business. In order to limit fluctuations within the European countries, they have locked the business in single currency.

Source: V. Bala Swaminathan,"Giving Dollar A Run", *Industrial Economists* 15–29 January 1999.

Exhibit 4.14 Economic Cooperation and Business

The treaty of Rome in 1997 lead to formation of EEC or a common market and most of the Western European countries became its members. Its objective was to eliminate quotas and establish a free trade area for industrial products thus helping the member countries compete effectively in international markets. Such economic cooperation was also established among USA, Canada, Japan, EEC, and other countries through multilateral trade negotiations which has impact on business activity of various member countries.

Some of the important factors which influence the strategies in any market environment can be summarised as follows:

1. The frame work of the constitution, directive principles, fundamental rights, and legislative and executive powers of the government (Refer Exhibit 4.15).

Exhibit 4.15 Laws and Regulations Affecting Business (II)

British American Tobacco (BAT) Chairman expressing about the merger of BAT and Rothmans International said that the merger represented a major step forward in achievement of his vision to become worlds leading international tobacco company. It is noteworthy that BAT holds a 33 percent stake in Indian tobacco giant ITC Limited and therefore Rothman's proposal to set-up a 100 percent subsidiary in India is likely to be automatically rejected under the prevailing norms for MNCs.

Source: "Economy and Business", adapted from *Hindustan Times,* January 12, 1999

2. Government policies related to distribution, pricing taxation, etc. and their control (Refer Exhibit 4.16).

Exhibit 4.16 Political Effects on Business

The international rating agency Mood's investor service in its annual report pointed out that the reform process initiated in 1991 allowed down three years later due to political climate leading to falling behind the schedule the plans for fiscal tightening, deregulation and privatisation of public sector banks. The government interference continues as it controls and owns the majority of banking sector capital and this situation is not conducive for corporate governance. The Indian authorities are striving hard to create a well-regulated, increasingly liberalised banking sector.

Source: *The Statesman,* January 14, 1999

3. Government policies pertaining to monopolies, licensing, foreign investment, financing, loans, etc.
4. Industrial policy related to public sector, small scale industries, social development, pollution, etc.

Particularly in the Indian context, an industry operates within a strict regulatory environment. However, in some sectors ways and means are designed to break the norms. The regulatory environment has evolved as a result centralised planning and control and the regulations imposed by the laws on economic activities which are generally in the perspective of public interest. The industry has also been lobbying and creating awareness for its own benefit to create policies which will enable them to work and produce in the general interest of the públic. The government acts through its ministers at the centre and the state in creating a conducive business environment. The state ministers are often found visiting other countries to invite foreign companies to start business in their state and they declare many attractive subsidies to these industries (Refer Exhibit 4.17).

Exhibit 4.17 Patent Law and Drug Business

US drug major Pfizer Inc, find it unattractive to introduce its latest drugs in India until a proper patent law is passed by Parliament. Pfizer will deepen its R & D presence and introduce latest drugs in

India if the IPR laws change to accept product patents. The five year transitional exclusive rights are not sufficient for an R & D intensive company to make up the investments.

Source: *The Times of India,* December 9, 1999, Business Times Bureau.

The consumer protection groups also impose regulations on the industry and register cases against companies, firms, businesses, etc. to protect the interest of consumers.

Market Environment

Market place environment where the product is sold to the consumer, has a great impact on a company. In a market there are competitors who offer better services to gain an edge. The competition may even turn out to be unhealthy when customers are carried away by untrue stories about a product or the company.

In market environment some of the pertinent factors that influence the business may be summarised as follows:

1. Customers have needs, demands, choices, preferences, attitudes, values, habits, buying behaviour, etc. With these traits a customer goes to market to satisfy his need. His satisfaction level about the quality of performance and appearance of a product may become a driving force for business. Some customers may be price conscious whereas others may bother more about status, services offered, brand name, etc.
2. Products available in market have a certain pattern of demand. Product image, its features, life, life cycle, cost, utility, finish, ergonomics, design, functions that it performs, etc. are some of the important aspects that a customer expects from products. The functions, whether secondary or primary, satisfy some needs of the customer. This drives him which he to buy a product and thus a business exists. How well the needs are satisfied decides how strongly a business is being driven. As a product is launched in market, competitors come up with even better features at lower costs. They may also offer additional functions at lower price or may offer an improved version of service or product. Customers evaluate product features and then take a decision of buying.
3. Market is usually charged with competition in present days. New competitors may be entering the market every day. There may be major competitors and smaller ones too. The nature of competition in some of the products may be very fierce whereas in others it may be mild. Various competitors may have different strategies to maintain a competitive edge.

All these factors affect market situations and must be studied by the business managers formulating suitable strategies which will not only enable the company to withstand onslaught of competition but will also help them to achieve coveted position in business.

4. It is only rarely that, products reach the consumers directly from the manufacturers. There is usually a chain of dealers, sub-dealers, local dealers, middle men, etc. before a product reaches a consumer. Further logistics, costs, delivery systems, packaging, transporting, displaying, etc. are involved which are also to be considered since all these finally go into selling of a product.

In the case of manufacture of control panels, generators, transformers, switch gears, etc., competition may not be as severe as in the case of consumer products. Here, market environment may be governed by service, life cycle cost, image, etc. Some sectors may be protected by the government viz. petrol, cooking gas, power equipments, electricity, water etc., although in recent years these fields are also being opened up for competition.

The rapidly changing business environment both at the national and international levels case the different markets to react accordingly. Companies have also geared up themselves and have brought in new systems, strategies, policies, etc. to meet new challenges. Today companies spend a sizeable amount of money to understand the market environment which directly or indirectly affects it (Refer Exhibit 4.18). Executives of companies visit markets to get first hand information about their own products and products of competitors. In earlier times, the edible oil companies rarely cared about their consumers but today companies making different brands of oils conduct surveys to get data on consumer satisfaction. The same is the case with the automobile industry wherein companies having unsold stocks resort to various methods of sales promotion. Even in the case of personal computers, companies are trying to reach out to homes of people to dramatically expand their market.

Exhibit 4.18 Japan's Innovative Growth

In the last eight years Japan has tried hard to get up and run but has miserably failed. Japan was the fastest growing country in the fifties and sixties by import of innovations and later on becoming a leading innovator for the next 20 years. The world owes a lot to Japan viz. the robot industry, computers and microelectronics etc. It has now run out of innovations taking the steam out of Japan's growth engine.

Source: Ashok V. Desai, "Fear of Drowning", *Business World*, September 22 – October 6, 1998.

It has now become composer practice for companies to study the competitor's profile and benchmark their operations for improvements. Some of the factors involved in a situational study of the competitor's profile may be as follows:

1. Total market volume and market share
2. Range of products and services

3. Network of sales
4. Competitive advantages and edges
5. Pricing trends, policies, etc.
6. Company mission and methods adopted for advertisement of products
7. Locational benefits
8. Company history with regard to profits, order book, operations
9. Sourcing of raw materials, components, etc.
10. Financial soundness
11. Quality standards used
12. Future plans
13. R & D programs
14. Human resource
15. Strategic directions of growth.
16. Weaknesses

It is not an easy task to gather all the data however, executives take continued efforts to get more accurate details relating to these factors. A company ranks these factors in order to give more weightage to the more important factors.

The customer profile also has to be worked out in a similar gathering all the vital informations. The profile for the most prospective customer would necessitate knowing their complete details viz. geographic, demographic, and psychographic aspects, and their buying behaviour. Let us discuss each of these dimensions of the customer profile.

Geographic It is important for strategic managers to know their customers' geographic locations. Since each location has its own culture, environment, and background, it becomes easy to assess the customer's preferences. For example, persons belonging to West Bengal have a different pattern of preferences compared to Punjab. The food habits, festivals, living styles, dressing sense, hobbies, etc. vary from region to region and companies operating in different states must be able to match their products and services to their customer's delight. Political leaders make themselves more acceptable to the masses belonging to a particular state by wearing local outfits and using local language. Similarly, the Viswakarma Puja in factories is done to satisfy the workers. Companies make use of festival seasons to woo their customers with hoardings of new arrivals and discount sales.

Demographic The demographic information refers to information on age, sex, marital status, income, etc. which is comparatively easier for collection and processing. This information helps to create customer groups and segments for which separate strategies may be worked out by business managers. The product designs, their features, and price vary according to the buying capacity of the customers. This is the reason using a single company offers different varieties of detergents, cars, scooters, mopeds, houses, magazines, etc. with different features and prices.

Psychographic The personality, life-style, tastes and social movements of customers are some of the factors which influence their selection and preference of products. Certain classes of clothing, vehicles, toys, furnishings, etc. are owned only by a definite class of people.

The author once visited an exclusive showroom in Kashmir and asked the salesman to show pashmina shawls. The salesman gladly got ready to do so when the author hastily added that he only wanted to see it because pashmina shawls could only be bought by actors, doctors or ministers since the prices were exorbitantly high.

Buyer behaviour There exists a definite buying behaviour which is based on several indices viz. usage rate, benefits desired, preference for price, quality, service, life, life cycle cost, ownership cost, etc. Today, buyers have more awareness about their rights and demand very good product performance. This poses a challenge for manufacturers. Buyers have also joined hands and have legal forums where their grievances regarding products are being heard. Strategy managers have to consider these factors while making in their strategies (Refer Exhibit 4.19).

Exhibit 4.19 The Price War

The Indian consumer is keenly watching the price war in Indian market. The prices of consumer durables are tumbling down as capacities remain unutilised and competition taking new unexpected dimensions. The collapse started with televisions and computers, however, realistic pricing is now becoming the law of today's business. It is fast spreading to cell phones, holiday packages, credit cards, cars etc. Baron International which markets Akai and AIWA brands ignited the competition. The downward spiral soon caught other categories viz. cars, refrigerators, washing machines etc, who are wooing the buyers with more than 20 percent slash in price. Barely a few hours before TATA declared the prices of India, MUL slashed their prices thus triggering off a price war in cars. In holiday package business the Mumbai based SOTC was the first to offer free air tickets for spouse for the first 1000 tickets. The boom of 90s motivated manufacturers to expand their capacities, however, by mid 97 the recession had set in. It is noteworthy that the price war has lead to growth rates and the performance has been amazingly high in some sectors. For instance in refrigerator market, the growth has been 22 percent for April-Sept.'98 against 13 percent the year before and in PC market the growth has been at the rate of 35-40 percent on average. Thus the markets in India are fast realising that consumer is precious and is driving the business.

Source: Shefali Rekhi, "Going Cheap", February 1999.

Suppliers' and Creditors' Environment

The relationship existing within the suppliers, creditors and the companies is crucial for the company's long-term survival and growth. The relationship must be based on faith and commitment and should be long lasting. The suppliers and creditors should be dependable during times of difficulty because the company should have a continued supply of needed inputs. A company depend on its suppliers not only for timely delivery of materials, but also for financial support and services. During emergency conditions the company may have to demand quick delivery or soft credit terms. The deliveries of items and materials may be deferred or a lot may be broken into sub-lots. Only if the company in competent enough and is able to address some of the following aspects will it be able to get a continued support from its suppliers.

i. Whether suppliers offer the right quality of materials and whether the cost is low.
ii. Whether prices offered by suppliers are competitive with respect to quality of products offered.
iii. Whether suppliers offer desired services.
iv. Whether suppliers have the ability, reputation, reciprocal dependency, etc., and share value engineering benefits, and benefits accrued due to other cost reduction programmes.

A company should address some of the following problems to unearth problems fairly in advance to design strategies for meeting challenges (Refer Exhibit 4.20).

Exhibit 4.20 Business Environment Faced by Suppliers

The number of suppliers being cut by Indian companies is steadily growing. The Indian companies are doing so to remain competitive. Bajaj Auto has followed new supply-chain management policy by which it has knocked out about 70 suppliers. A supplier to HMT reported that the company had promised him initially a support for seven years but when the company started sliding down it started delaying payments and eventually stopped placing orders. Companies cannot go to court for fear of loss of total business. The tax men demand their money today though the money is received only after, may be, six months after the sale of goods.

Source: Niranjan Rajadhyaksha, "It's Hurting," *Business World*, Sep 22 – Oct 6, 1998.

i. The continued supply (as per the schedule of deliveries) of raw materials, components, consumables, parts, tools, tackles, etc. at competitive prices.
ii. Availability of finance for implementation of strategies, plans and projects as per schedule.

iii. Availability of energy at costs compatible with profitability of company.

iv. Perception of creditors company's past payments, working capital management, etc.

By specifically answering the above questions, a company can make forecasts about it position in the market and implement the needed strategies to sustain itself. It is only rarely that a company can process all the ideal factors—quality, quantity, price, and human and material resources. However, an accurate evaluation of suppliers and creditors is crucial for a company to gauge its business environment.

So happens that sometimes people join a company and come out after getting trained. In recent years the trend has greatly accelerated since youngsters are highly ambitious. It has become necessary for companies to pay marginally higher salaries to attract employees of other companies. The ability of a company to sustain its efficient employees is necessary for its success. In the business environment, the reputation of a company and the total pay package that it offers are the main considerations of personnels. From the point of view of an employee, a good company is one which

- has long-term ability to meet the personal needs of employees,
- is stable and permanent,
- pays reasonable salaries to its employees,
- looks in the welfare of employees,
- is valued for its product quality and service rendered and
- has a good reputation for the social behaviour of its employees.

After the industrial movement was started in India, most of the companies recruited people from nearby places even though they were not qualified or experienced. Gradually, these people gained experience and new companies get tempted to attract them. Some skilled employees demand higher compensation. Usually such skilled persons are selected from over large geographic areas. This can be exemplified by the thousands of engineers specialising in computer software IT industry migrating to the USA. The demand for and supply of workforce depends on many factors like technological growth, economic conditions, development programmes, etc. (Refer Exhibit 4.21).

Exhibit 4.21 Offshore Workers

The wage pattern in all countries is different and this fact has been well utilised by many companies around the globe. The data processing and back-office work is shifting to countries where facilities in exist of computerisation and trained people are available to handle the information.

The Swiss Air set up its data entry system in Mumbai in 1987. The Indian workers here make corrections in the reservation bookings and feed to the Swiss Air main computer in Zurich. The clerk in India with all the computer and supporting software etc. costs about one fourth to the company.

Source: Niranjan Rajadhyaksha, "It's Hurting" *Business World,* Sep. 22 – Oct. 6, 1998.

Technological Environment

Technology has been rapidly changing in recent years. Likewise, the obsolescence is also fast-changing. The advent of computers has shortened distances and virtually there has been an explosion of information. This technology boom has even changed the nature of competition. By innovating technology and streamlining operations, companies have expanded their limits and have raised customer's expectations. Thus the customer's satisfaction transforms to customer's delight and customer's success.

The technological changes also result in shrinking the product life cycles from years to months. A product introduced today may become obsolete the next day. The time to develop new products and services and to introduce new concepts, has greatly reduced.

Some of the key factors which influence operations in a technological environment are as follows:

1. The source of technology is important for any company competing in a market. Several companies develop their own technology through in-house research whereas others depend on collaborations. However the technology becomes old by the time it is really imbibed. Small improvements are made existing over the technology using techniques like value engineering. These modify the material flow processes and other design features. The cost of technology is an important factor and must be considered during its sourcing.
2. The technological developments are vital for a company as they decide its competence. The rate of change of technology, cost of change, and time to assimilate and install a new technology are some of the important factors to be considered.
3. While going in for new technologies, the companies are responsible for taking care of the social environment and man-machine system. The effect of technology, the health of employees and the social environment should also be taken into consideration.
4. The fields of information technology and management have taken quantum leaps in the recent past. Businesses have tramped new rules and companies have gone into introspection of their operations. The business processes have been redesigned to avoid arbitrary fragmentation of natural business process which causes extensive information exchange, data redundancy and rekeying of desired information. The system slackness which was unable to cope up with uncertainty causing piling of inventories, buffers and other

assets is being made more adaptable and responsive. The high ratio of checking and control to value additions is being reduced.

Technology basically involves the know-how and know-why which refer to ways of designing, manufacturing or using things and which transform into the products, processes, and services rendered to customers. Further, technology is strategic in nature as it has far reaching consequences on future of a company. It has become a major stimulus for change resulting in economic progress. Countries which dominate are technologically advanced the global scene today. Developments in agriculture, transportation, health, communication, etc. are all dependant on technology. Every part of human civilisation is affected by technology.

ENVIRONMENT SCANNING

We have discussed in detail the impact of environment on companies. It is vital for companies to comprehend, identify and classify environment and its factors in order to draw meaningful conclusions. Although these environmental factors discussed above encompass all the relevant dimensions, it should not be forgotten that environment is highly dynamic in nature and it is humanly impossible to be accurate about these factors and their interrelationships. All the elements act together in a coordinated fashion and no single element can be exclusive of the others. A change in environment triggers off a series of reactions. The effect of rise in petrol prices on the business environment of a company, the effect of education on product preference, the effect of adulteration of edible oil on its sales etc. can be cited as examples. Since the changes in environment affect various factors, which are vital to a company, to varying degrees at various times, it is difficult to evaluate these influences. Probably cause and effect relationships can be drawn between various factors and their impact on the environment. The environmental uncertainities causes strategy managers to go for short-term plans. They operate with flexibility, focussing on speeding up operations to be in tune with the fast changes in environment. Thus companies tend to become reactive rather than being proactive and hence face the peril of losing leadership in business.

It may be true that some strategies are successful it may be very difficult to anticipate the impact of changes in the remote and operational environment of a company. The impact of changes on other alternative strategies also cannot be easily evaluated. Hence a lot of data should be collected, classified and analysed.

In spite of the inaccuracies in predictions it is worthwhile to study the effect of various changes on environment as it helps to narrow down on the alternatives and avoid unwanted options. Assessment of environment does not lead to the best strategy but it definitely leads to elimination of all non-promising alternatives. The cost, effort and time spent for environmental scanning helps in justifying the efforts that go into the entire exercise.

APPROACHES TO ENVIRONMENTAL SCANNING

The various approaches used by strategy managers for environment scanning, can be summarised under three broad categories.

Systematic Approach

In this approach, formats for various issues are developed and scanning is done systematically in a step-by-step fashion. The information related to various factors viz. regulatory, social, economic, technological, resources, etc. is collected which has direct bearing on the working of company. Data on various factors is continuously collected and updated and their effect on various elements pertinent to the organisation is studied. The variance of various factors is analysed and their swing is worked out to estimate the impact of the changes. A system of assessment of the environment is prepared by the strategy manager followed by all the line managers in the organisation.

Process Information Approach

Information on environment and its various factors is available from trade papers, trade magazines etc. Many organisations prepare summary of relevant information to keep themselves updated. The processed data is made available to the strategy management group for processing and drawing inferences based on which corrective actions may be taken by a company.

Ad Hoc Approach

Some companies collect specific information on selected environmental factors by conducting special studies. Such studies are usually conducted when a company wants to launch a special project. The impact of a project on various environmental factors is studied within the framework of a specially designed study program and results are obtained through analysis using computer softwares of changes and developments may be studied using pilot projects and results extrapolated for use by strategy managers.

Usually organisations use various kinds of approaches for evaluation of environment. Either they choose a highly systematic complex process of evaluation or just settle for an informal assessment. Generally during emergency, an informal assessment is made, however, information and pattern of changes already studied may be used to arrive at a strategic decision. A systematic approach is basically a proactive approach where a system may be designed to convert threats into opportunities. An informal approach is basically a reactive approach where unless the companies have good flexibility in their structures, and business processes, it may be difficult for them to plan strategies accordingly. Practically it is not possible to stick on to exclusively one type of approach. Depending on the various issues faced, the company chooses its mode of approach. Results based on correct data are important for strategy managers to formulate workable strategies.

SOURCES OF INFORMATION

A company can obtain information from different sources, but it should be ensured that the information is correct. The correct source should be tapped for specific information for more accuracy. Information received from secondary sources may sometimes even misguide strategy managers. Hence it is important that information should be verified for correctness before it is processed and decisions are taken based on it. The various sources from where information can be gathered include:

1. trade directories, journals, magazines, news papers, books, newletters, government publications, annual reports of companies, case studies, etc.
2. radio news, television, internet, etc.
3. internal documents viz. files, records, management information system, employees, standards, drawings, charts, etc.
4. external agencies like customers, suppliers, inspection agencies, marketing intermediaries, dealers, advertisers, associations, unions, government agencies, share holders, competitors, etc.
5. market research reports, consultants, educational institutions, testing laboratories etc.
6. spying, considered as a powerful way of extracting information from other companies.

It is found that the chronological order of information is also quite important for strategy managers. Usually information received from government agencies is quite stale since processing takes more time. The information received from competitors is quite expensive but it is usually fresh and is quite useful.

TECHNIQUES USED FOR ENVIRONMENTAL SCANNING

The techniques may be either very systematic to intuitive. Selection of a technique depends on data required, source of data, decision to be taken, timelines of information, relevance, cost of information, quantity, quality and availability of information, etc. Many theoretical models for extrapolation of information have been developed depending on the kind of information required. Some of the methods widely used can be categorised as follows: Scenario writing, simulation, single variable extrapolation, morphological analysis, cross impact analysis, field-force analysis, field anomaly relationship, theoretical limit envelopes, dynamic mode mapping, game theory, etc. The techniques are either statistical or mathematical in nature. However, judgemental and intitutive techniques are also widely used.

The entire process consists of following steps.

1. Major events and trends in environment are studied.
2. A cause and effect relationship is established with regard to events and trends for long and short term. This is done through brain storming in a group.

3. Diagrams showing interrelationships amongst various factors are prepared and an attempt is made to quantify the results.
4. The study is reviewed by a group of experts who deliberate on each aspect and on the possible strategies that may be decided.

The information gathered needs to be structured so that it may be easily understood and assimilated. The information generated is classified and structured to study the emerging threats and opportunities.

PRIORITISING ENVIRONMENTAL ISSUES

Environmental scanning generates a vast amount of information which are all jumbled up. The information should be rearranged in order to draw meaningful inferences from it. Also each information may vary with respect to its value and priority, hence, it is prioritised on the basis of the amount of impact it can make on strategies. It is extremely difficult to quantify the impact, however, a qualitative assessment can be made with a little effort. If a matrix is attempted to be created with probability of impact and its intensity on various strategies of business, it would be possible to rank critical, and high priority items and not-so-critical and low priority items. It must be remembered that low or high priority is only a variation which may change with time, and a low priority item may become most critical with passage of time. Hence low priority signifies that there may not be an urgent need to focus immediate attention on these items but a thorough and continuous monitoring may be necessary. From these critical and sub-critical factors and issues emerge the opportunities and threats which the strategy managers diligently use for the benefit of their company.

ENVIRONMENTAL THREAT AND OPPORTUNITY PROFILE (ETOP)

Various environmental factors are quite complex and it may be quite difficult for strategy managers to classify them into neat categories to interpret them as opportunities and threats. A matrix of comparison is drawn where one item or factor is compared with other items after which the scores arrived at are added and ranked for each factor and total weightage score calculated for prioritising each of the factors. This is achieved by brainstorming.

Finally the strategy manager uses his judgement to place various environmental issues in clear perspective to create the environmental threat and opportunity profile.

Although the technique of dividing various environmental factors into specific sectors and evaluating them as opportunities and threats is suggested by some authors, it must be carefully noted that each sector is not exclusive of the other. Each of the major factors pertaining to a particular sector of environment may be divided into sub-sectors and their effects studied. The field force analysis goes hand in glove with ETOP as here also the contribution of each sub-factor to a major factor is estimated and eventually judged by the strategy manager. An internal assessment of an organisation with regard to opportunities and threats posed by the environment is also a necessary part of study. The strategic managers should keep focus on the following dimensions.

Issue Selection

Focus on issues which have been selected should not be missed since there is a likelihood of arriving at incorrect priorities. Some of the important issues may be those related to market share, competitive pricing, customer preferences, technological changes, economic policies, competitive trends, etc.

Accuracy of Data

Data should be collected from good sources otherwise the entire process of environmental scanning may go waste. The relevance, importance, manageability, variablity and low cost of data are some of the important factors which must be kept in focus.

Impact Studies

Impact studies should be conducted focusing on the various opportunities and threats and the critical issues selected. It may include study of probable effects on the company's strengths and weaknesses, operating and remote environment, competitive position, accomplishment of mission and vision etc. Efforts should be taken to make assessments more objective wherever possible.

Flexibility in Operations

A lot of uncertainties exist in a business situation and so a company can be greatly benefited by devising proactive and flexible strategies in their plans, structures, strategy etc. The optimum level of flexibility should be maintained. Some of the key elements for increasing the flexibility are as follows :

- i. The Strategy for flexibility must be stated to enable managers adopt it during unique situations.
- ii. Strategies must be reviewed and changed if required.
- iii. Exceptions to decided strategies must be handled before hand. This would enable managers to violate strategies when it is necessary.
- iv. Various available options for achieving defined targets within the framework of policies and on justifiable grounds must exist. This enables employees to choose a course of action. Flexibility may be quite costly for an organisation in terms of changes and compressed plans, however, it is equally important for companies to meet urgent challenges.

QUESTIONS

1. What do you understand by business environment?
2. Why is environmental analysis required for a company? What does a company in your opinion draw from environment?

3. What are the various types of business environments? Discuss the characteristics of business environments.
4. What is the influence of environment on the working of a company?
5. Discuss various components of a business environment.
6. What do you understand by a regulatory environment?
7. What are the factors in regulatory environment which affect strategies of a company?
8. What do you understand by market environment?
9. Discuss various factors of suppliers' and creditors' environment.
10. What do you understand by technological environment?
11. What is business environment scanning? What are various approaches to environment scanning?
12. What are various sources of information?
13. Discuss techniques of environmental scanning.
14. How do you prioritise environmental issues?
15. What is environmental threat and opportunity profile (ETOP)? Discuss various dimensions of ETOP.

CHAPTER

5

Analysis of Industry

Nowadays, whether a company manufactures a product or offers some services, its roots can be traced to the concept of business organisations described in '*The Wealth of Nations*' by Adam Smith. Organisational structures were initially based on division of work. Work was fragmented into smaller units with a view to enhance worker's productivity as it was thought that an artisan who works on a job for long periods of time would develop expertise. The number of units would be so produced would not only be more but would also have lesser defects. With increased experience on a particular piece of work, more would be the output from a worker. Consequently he or she could be paid more accordingly. The reduction in the cost of goods depended on the workers productivity. This productivity was enhanced by division of labour, and in turn labour productivity was enhanced by several hundred times. This leads to specilisation of labour. Management rules were created for all possible contingencies.

The next industrial revolution came after World War II when enormous economic expansions took place. There was an unrelenting demand for goods throughout the world which shaped the economic environment into what we see today. The depression was followed by war which lead to scarcity of goods. The focus was on quantity rather, scooter, cycle, refrigerator, house, or utensils, was better than nothing at all. In the fifties and sixties the concern of managers was to meet the rising demands of goods and they found out newer ways to enhance production to meet the ever growing demand of goods. Manufacturing capacity of companies was the prime concern.

Money available in market was scarce and even companies which built up productive capacity soon found it quite difficult to finance their businesses. Companies which built too small a capacity and built it relatively late, lost the opportunities and their market share reduced due to their inability to produce and meet the demand of customers. Hence many companies had to resort to complex planning, budgeting, and controls. The organisational structures became pyramidical and whenever a company desired to grow to meet more production requirement it added workmen in the bottommost line.

Departments, sections and divisions, etc. were created and the work was supervised through closely monitored plans. Budgets were made and approved department-wise and managers exercised strict control over them.Workers were required to be trained in different skills so the training needs were simple. The training was for short durations as it was required to build only working skills in specialised and fragmented areas. With passage of time whitecollar jobs were also fragmented. The number of tasks increased and became more complicated and difficult when it came to managing total operations. The processes became so complex that these went into the back drop and instead the departmental boundaries became more firm and clear. The gap between the lower level and top level management likewise there was a wider gap between the customers and the top management since their total attention was to increase production. Power and responsibilities were diffused through large and monotonous bureaucracies and controls became less responsive.

But now the business scenario has changed. Competitiveness has mushroomed the entire business world which has become fluid and unpredictable. There is no status quo. Market growth, customer's demands and preferences, product life cycle, technological changes, competition, rules of business, regulations and statuary laws, entry of new competitors-all are changing very fast.

In 1989 the Berlin Wall gave way. The 1990s saw unification of East and West Germany and break-up of the Soviet union and Yugoslavia. At the same time the European countries worked to make the European Union (EU) and European Common Market. In India, even though the growth rates and the level of per capita income have been lower, the industrial structure has undergone massive diversification. The share of agricultural allied activities fell from 54.91 percent during the first plan to 32.82 percent during the seventh plan period. The structural changes with regard to employment have also udergone changes. The work force engaged in primary sector livestock, agriculture, forestry, fishing, etc.) decreased from 71.7 per cent in 1901 to 68-61 per cent in 1981. Agriculture still continues to be an important organ in Indian economy. About 30 per cent of national income comes from the agricultural sector. But in the US agriculture accounts for only about 7 per cent of total work force.

The main problem in India today is the high birth rate coupled with falling death rates. The heartening feature is that in the last three decades there has been a decling trend in population growth rates.

The industrial policy resolution of 1948 and 1956 involved conscious and deliberate heavy investments in the basic and heavy industries in addition to consumer goods industry. Industrial productions grew at a rapid rate and India has achieved the tenth position in the list of industrialised countries. This growth is also reflected in the commodity composition of India's foreign trade. The economic reforms that were started by Rajiv Gandhi in 1985 have paved the path for liberalisation of Indian economy. Some of the important decisions taken by his government were decontrolling of cement and licenses issued to private sector to produce cement, raining of ceiling asset limit of big business houses from Rs. 20 crores to Rs. 100 of MRT Pact, and launching a scheme of broad banding for 25 categories of industries meaning that within the overall capacity, firms were given freedom to produce a range of commodities.

The three main objectives were liberisation, globalisation and privatisation of new economic policy. The licence-permit-raj was to be finished. There was reduction in import duties and on quantitative restrictions on imports and export. On February 8, 1997 the Ministry of Commerce dismantled restrictions on 162 items for import and out of them 69 items for which special import licence was required were made free for imports. Foreign technology agreements were given encouragement. Measures were taken to achieve higher growth rate of national and per capita income, employment, self reliance, reduced inequality of income and wealth etc. The economic reforms lead to higher growth rates, controlled inflation etc. It is pertinent to note that problems which remain unaddressed viz. poverty, employment, self reliance and growth coupled with social justice etc. require multi pronged attack. The economic reforms need a little more orientation in this regard (Refer Exihibit 5.1).

Exhibit 5.1 Global Positioning of Companies

With globalisation Indian manufacturing can no longer be viewed as simple–conversion of raw materials into finished goods. According to a survey conducted by IIM Ahmedabad following facts have come to the fore.

1. Innovation and supply chain management which are crucial for sound growth of any company is sadly missing in Indian companies and this could be disastrous for them with international competition heating up.
2. In India, labour costs are only 10 percent and materials and overheads form 66 and 24 percent of the total volume of costs. Indian manufacturers have traditionally been concentrating on labour costs.
3. On a seven point scales, quality, was found to be on top and innovation and R & D among the last priorities. While companies have concentrated on flexibility, managing change and other aspects of business, they have hardly focused on fundamental aspects of manufacturing and the way it is organised.
4. Variety of improvements have been made including investment in IT with no clarity as to how they plan to use this information for decision making.

Source: Business India January 25th – February 7th, 1999.

In such a context, the emerging role of global managers is even more demanding. They need to improve corporate performance by rising up from the mind set of local and domestic competition and feelings of nationalism to that of global well-being, competition and existence. Both global and local managers focus on profits and market leadership. But global managers have the added responsibility of preserving the economic competitiveness of the nation which reaps a major part of revenue. The decision making will now be based more on economic planning. The Japanese, US and EU markets are seen facing problems of economic stress causing debt loads and fierce competition. There are slowly shifting from military dominance to economic leadership in global affairs.

The competition in any industry depends on threat of new entrants, bargaining strength of customer, barging strength of suppliers of goods and services, the risk of product and service substitutes operating in the environment full of contestants who wish to achieve market leadership and the Indian business scenario today has been fully exposed to a very fierce competition.

COMPETITIVE FORCES AND STRATEGIES

The objective of a strategy manager is to secure his company's desired position in industry against various competitive forces (Refer Exhibit 5.2). Competitive forces retard growth and even threaten survival of a company, but the strategy manager has to study them to create a situation whereby these forces either may turn favourable to the company or at least fail to predate in his company. The strategy manager does not draw any conclusion from the apparent intensity and nature of the forces but dwelves below the superficial effects and analyses the competition. Thus the essence of formulating strategies lies in effectively dealing with competitive by forces understanding their origination, operation and effects and by formulation and implementation of suitable strategies.

Exhibit 5.2 Location of Business

The central theme of Porter's hypothesis is location of clusters, i.e. the group of companies specialising in a specific area and location at one place. Clusters affect competition in these basic ways.

- Companies become more productive
- Rate of innovation increases
- Rate of growth is enhanced with regard to new businesses
- The knowledge and motivation is almost next door. Clusters also attract more talent...

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

Competition should not be viewed too narrowly or pessimistically since it leads to growth. It erupts due to several situations in business environment, customers, etc. There is a constant fight for market share among the competitors. Each company wants to increase its market share, and designs strategies to do so (Refer Exhibit 5.3). Competition is also rooted in economics of the environment in which a company exists and both the environments i.e. the remote as well as immediate affect the competition and its intensity. There are numerous examples which illustrate this point. The leakage of fatal gas in Bhopal lead to the death of many people due to inhalation of the poisonous gas. Here large amount of money was distributed to rehabilitate the victims. This money which flowed into the market created a boom in the consumer durable market. Disbursement of bonus produces a seasonal effect as can be seen in various industrial towns where the purchasing power of people is suddenly enhanced. This not only results in the arrival of new products, services, etc. but also in new sales schemes and techniques. Competitive forces present in environment go even beyond the various apparent combatants in a specific industry and this fact should be well appreciated by strategy managers (Refer Exihibit 5.4).

Exhibit 5.3 Business Scenario of Indian Car Markets

The Beginning of 1999 has been with redefining of ground rules for competition for the Indian car markets. The new entrants in the small car segment are enjoying bigger markets compared to that by Opel Astra, Ford Escort, Daewoo Cielo, Honda City, Subishi and Maruti Esteem, all but together. In India the consumer is today looking for reliability and sturdiness to withstand the lunarscaped roads and low prices in car with driving pleasure as common denominator.

It is a history when MUL won its no contest war against premier Automobiles and Hindustan motors. Today it faces stiff challenge with many new entrants. In 1996 the Economic intelligence unit estimated sale of 8.75 lakh cars a year by end of decade. By 2005 it said that the figures would cross 13 lakh a year. The markets, however, are not growing at this rate. Against this back drop, the war of cars has commenced. The MUL is seeing their rebels play the same strategies of product innovation, pricing and reaching out on customer with best offers as quickly as possible. The methods vary from a snappy image through vigorous advertising to easy financing and to mileage per liter, etc. The new technology in cars is now taking a forefront. The heartening thing about small cars is that its overall growth has been 10–12 per cent last year compared to that of overall growth rate industry. Hence this blood-letting may continue for some years to come.

Source: "Size Does Matter", by A. J. Darukhanwal, and "War of the Wheels by Robin Abrea and Shefali Rekhi, *India Today,* October 19,1998.

Exhibit 5.4 Unionism and Its Effect on Business Environment

The trade union leaders, upon request from finance minister, to indicate their views on methods to improve the industrial and overall growth to strengthen the level of physical and human infrastructure to accelerate the growth of employment, suggested the following. Wide-ranging discussions brought forth suggestions for the unorganised labour.

- Allowing worker to buy disinvested shares of PSUs, representation of worker's unions in BIFR, and speedy disposal of cases by BIFR.
- Enhancement of the exemption limit for the personal income tax upto Rs 1 to 1.2 lakhs and exemption of dearness allowance from the payment of income tax.
- Cess on diesel tax, and abolition of road tax. Strengthening social security system for the underemployed, unemployed and the unorganised labour. Provision of more funds for social sector and employment generation by at least 10 million per annum.
- Ban on exports of agricultural products and increased duty on imports.
- Expedite wage negotiations with trade unions. Increase in ceiling limit with regard to payment of bonus to workers.
- Increase in budgetary support to sick units so that statutory payments can be made to workers.
- Reforms in agriculture and land reforms. Effective implementation of minimum wages fixed for different sectors.
- Allocation of at least of one per cent of the provident fund for construction of houses.

Some trade union leaders expressed concern regarding conditionalities being imposed by the multilateral institutions, our participation in the WTO disinvestment of government securities, enactment of patents bills and utilising pension fund for other purposes.

Source: *The Statesman,* January 14, 1999.

The basic forces which affect competition in an industry can be listed as follows:

- potential entrants
- Suppliers

- Suyers
- Substitutors

Potential entrants create a threat on market share of existing companies. Market share which exists in a particular product or service and is shared by existing companies gets further divided due to entry of a new company. These new entrants may not only compete in quality, price, deliveries, and services but may also innovate and come up with innovative products and services making products of existing companies totally obsolete (Refer Exihibit 5.5).

Exhibit 5.5 Shifting Strategies—The Siemen's Way

J. Schubert MD of Siemen's expressed that markets in India have witnessed fundamental changes, thus creating a need to change ways of doing business. The market dynamics have been affected due to new entrants, big and small and have lead to fierce competition. Some of the latest entrants do not carry burden of the past value adding structures. They have the liberty to import and add value or manufacture locally, thus culminating in price erosion in shrunk market. For the year Oct. 97 – Sept. 1998 there was decline in orders by about 22 per cent. The company decided for restructuring in manpower and capital expenditure. Many changes took place in addition to merging the motor business with switchgear.

The company has taken other turnaround measures and is determined to stay...

Source: K. Padmanaban, "Siemens Ltd: Shifting Strategies," *Industrial Economists,* 15 – 29 January 1999.

Suppliers fix the cost of inputs to a company. The right time, right quality, right price and at right place of supply of materials is vital for buyer. In some companies suppliers form consortiums thereby slashing the profits of that company by quoting a higher price and getting order by turn. When a new company ventures, the prices are either heavily reduced such that the new entrant finds it very difficult to service or various other pressures are put upon the new entrant to bring their activities to a standstill. A company which manufactured power generation equipment quoted for shafts to a company and secured the order as its price was highly competitive. But faced great difficulty in executing the order, since the staff of the buyer company did not cooperate. This was because the company which was already doing business with the buyer company generally quoted very high rates and shared the accrued benefits with the staff who were responsible for clearance of order and execution of project.

Hence it is important to understand the various factors which lead to competitiveness in an industry. The source of competitiveness is to be clearly defined and understood. The strategic framework of a company is based on relationship of the competitive forces. The study of various active forces and their interaction reveals the strength and weakness of the company based on which strategies are formulated. The resultant of these forces determine the positioning of the company in the competitive environment. This gives a nowledge about the critical issues that a company must pursue to maxi-mise returns. The priority of strategic changes that would yield results also get carved out and the trends in industry offering opportunities and threats get uncovered. Based on these analyses a company may also decide upon its grand strategies.

FORCES DRIVING COMPETITION

The competitive forces which determine the profitability of a company in a given environment are of great significance to strategy managers. The strongest force is most important as it causes major swings in industry equilibrium in a direction favourable to itself.

Let us consider for instance, a new entrant with a new and low priced product in an industry. A company which may be enjoying an unthreatened status in that industry may be forced to reduce its profitability. Sometimes due to other reasons viz. brand name, better ergonomics, improved appearance, reduced weight, additional functions, etc. (Refer Exhibit 5.6). The product of the new entrant may attract buyers even if it were expensive. Probably in such situations the company facing the threat may decide to include all the desirable features of the new product in its own and deliver better products to the customer.

Exhibit 5.6 MUL—Finance Scheme for Cars

MUL, in order to promote sales of its cars in increasingly competitive market has come out with a 7 year car financing scheme. The company has targeted at the middle class salaried segment which accounts for a staggering 83 per cent share in car market. Growing competition had forced MUL to expedite and make simple the loan approval procedure.

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

In the engineering industry changes done in design result in change of entire material thus throwing a company out of business. We can quote several instances where aluminium replaced steel and fibre glass replaced wood and aluminium. The advent of computers threw slide rules into oblivion. In the near future laptops may make PCs obsolete.

Different forces take their prominence in industry over a period of time. We have witnessed an era when quantity was important and later on the emphasis shifted to quality. In the Indian market, price plays a significant role and bids are still evaluated purely on the basis of price in most of the buying done by the government. The time cycle for delivering an equipment is slowly gaining its importance and this is more so in sectors which are in the process of creating wealth viz. power equipments. Contracts today specifically ask for short deliveries and in addition to low price, timely delivery of equipments is being emphasised. In cases where the losses due to slippage in dates are substantial, heavy penalties are levied. The independent power producers, state electricity boards and other power producers want the equipment in lowest possible delivery time. The Japanese are now planning a customised car based on modular design to be delivered in a time period of three days.

Each industry has its own basic structure, technology, and economic characteristics which causes emergence of specific competitive force. The strategy manager must understand the dynamics of environment of that particular industry in order to frame workable strategies. The strategist must know the factors favourable and unfavourable to business and develop strategies to cope up with the situation. One of the important strategies may be to maintain the position of a company in an environment which is highly charged with competition. A similar situation is faced by industries dealing with services. In case of services the competition focuses on quality of service at a definite cost. Today service is being related to time factor also. In process industries, timely service is very vital and absence of it may result in huge losses to a company. In today's business world, time has become the dearest factor and in all sectors including communication, health services, transportation, information technology, education, etc. time dimension has acquired significant importance.

Each of the competitive forces consists of various components of varying strengths. Some of these components are discussed below:

PORTER'S GENERIC STRATEGIES

1. Overall cost leadership entails vigorous cost reduction programs from experience, cost controls and cost minimisation in areas viz. R&D, manufacturing, design, quality, sales force, advertising, etc.
2. Differentiation implies creating something which is unique in design, technology, value, features, service, network of distribution, etc.
3. Forces implies concentrating on a specific buyer group, segment of products, geographic market, customer's specific requirements, etc. The focus strategy is developed keeping a particular target in focus and policies developed accordingly.

The objective of any company in general is to make a niche for itself so that it may gain market share through cost leadership, differentiation and focus.

THREAT OF ENTRY

For any company which makes an entry in an industry, its success or failure is dependent on barriers present in industry, the reaction that the company gets from other competitors and its ability to overcome various barriers. If the barriers are not very tough the entry may be easy. Otherwise the company can expect vehement opposition from its competitors. The objective of a new entrant in industry is to grab a part of the share and create profits for itself. The existing players use a variety of ways to stop new entry. The major barriers to entry are listed below.

Economies of Scale

As the volume of production increases cost per unit tends to decrease due to distribution of fixed costs over larger quantities. The economies of scale reflect the corresponding decline in unit costs as the throughout is increased. The substantial cost reductions are due to the impact of increased volume of production and by upward increase in it through increase in the inputs over a period of time. The effect of scale of economies is present almost in all functions, and technological factors contribute to dip in cost curve as volume of production is increased.

Some of the following factors are important to note.

1. The improvement in technological process is sometimes made for high volume of production.
2. There are many resources which cannot be divided and used and can be used profitably only when used in fairly large quantities.
3. Generally speaking, the forward and backward integration of manufacturing processes and businesses can be justified for large organisations, operating comparatively in stable business environments.

One can see the effect of scale of economy in many business activities. The discount one gets over purchases of large quantities is a simple example. When economy of scale is present, there are many costs which get distributed over larger quantities thus making the proposition attractive. The investment required for a company for doubling its capacity is much less compared to the benefits that are accrued.

The economy of scale prohibits new entrants in business due to likelihood of cost disadvantage. The scale of economy in production, sales, design, purchasing, and research are probably barriers for smaller firms to enter into such fields as main frame computer, power equipment, power production, etc. The economy of scale can pose a hurdle in almost all fields to a new entrant.

Product Differentiation

The brands create customer loyalty. Many brands of tea, coffee, detergents, electrical appliances, etc. exist in market catering to the needs of various segments of markets. The customers develop a belongingness to some of these brands and for a new entrant it is quite difficult to alter the brand image in their minds. Identification of a brand may emerge from a variety of factors viz. customer service, being first in the industry, product differences, swadeshi, made from herbs only, etc. In the case of cosmetics, common cold drugs, investments, soft drinks, ice-creams, etc. the brand loyalty is found to be quite strong. In order to make it more difficult for new groups to enter into a business, economy of scale and brand loyalty is coupled to create greater hurdles.

Need of Capital

For high technology firms, R&D expenditures could be quite high. The rate of returns are also comparatively very high. In high capital intensive companies it would be quite interesting to analyse ratio of capital investment over sales.

In almost all industries, the growth of a company when compared with growth of industry reveals the changes of relative market share for each competitor and this figure must be analysed in terms of capital expenditures made. The investments made by each player in acquiring its market share. Sometimes companies make capital investments under a well thought out technology plan to upgrade their technical capabilities. Strategic funds in a typical company include the following:

- Investments in assets like production capacity, tools, space, new acquisitions, if any.
- Working capital requirement due to strategic commitments.
- Expenses on developments viz. sales promotion, R&D, management systems, etc.

In a typical company usually various earnings viz. depreciation, new debt issuing, new equities, etc. are used in dividends, debt repayment, new asset acquisitions, working capital and developmental expenses. The need of large financial resources creates a barrier to new entry and particularly when investments are not recoverable from developments, advertising, sales promotion, etc. The capital which is so scarce in business today is required not only for fixed assets but also for meeting customer credit, inventories and losses due to teething troubles caused by new products. In some capital intensive industry it may be quite difficult for new entrants as the companies already in business may leave no stone unturned to ensure that the new entrant fails.

Competitive Cost Dynamics

Effective management of the total costs of business is the fundamental concern of a company performing in a competitive environment. The internal strength of organisations to deliver products at a lower cost compared to that of its competitors is essential for effective management. They should be able to address the concept of competitive cost structures. The experience curves give the empirical relationship between direct manufacturing cost versus volume of production. The curve shows that cost of producing an item reduces as the volume of production increases. The cost arrived at from the experience curve can be obtained from the following equation.

$$C_T = C_O\left(\frac{P_T}{P_O}\right)^{-A}$$

where,

C_O, C_T = Cost per unit at time zero and T.
P_O, P_T = Volume of production at time zero and T
A = Constant, depends on industry

The systematic decrease in cost with increase in volume is due to following reasons :

Learning As a worker learns more and gains experience, the productivity increases, rejections go down and he produces more numbers in a given time.

Specialisation The product after being produced repetitively for several cycles gains maturity. The person gets specialised and would tend to introduce standardisation which would bring down costs.

Improvements Workers contribute to improvements in materials, processes, tools and techniques, design features, etc. leading to higher productivity and cost reduction.

Systems rationalisation Over a period of time management systems get standardised improving productivity. The paper work system is also streamlined thus reducing process time.

Know-how The know-how of a product is developed by way of experience and experimentation. Many manufacturers conduct detailed studies on the product of competitors and make improvements in their original design. The chain of experience curve may be summarised as follows:

Large Market Share → High Volume of Production → Lower Unit Cost → Increased Profits

New entrants in an industry may face problems due to proprietary technology, knowledge of source of materials, acquired assets at lower prices, favourable locations and good contacts. In recent times good contacts and knowing which joints-joints of business organisational structures of companies with which business is to be conducted-are to be oiled have become important success criteria in addition to good quality of materials, performance, etc.

Market Mechanisms

New entrants must develop channels in market wherein the products manufactured must be available for the consumers. A new cosmetic or a food item must find its place on the shop shelves. For this, large commissions may have to be ciritially given. In case the existing market channels of distribution are already completely tied up with the competitors, the new entrant may find it extremely difficult to break the prevailing chain. Sometimes they will have to create their own network of distribution of products. The retailers or the distributors play various tactics to grab a higher percentage of commission from new entrants. Once a product is established commissions may dip down.

Government Policy

Government policies may not be conducive for a company or business to enter a market. Government imposes various barriers like licences, quota for raw materials, regulations on air and water pollution, etc. which restrict entry of new companies. Sometimes the rules are so complicated that the new entrants operate with great difficulty in such business environment. Recently the West Bengal government banned use of plastic bags made from recycled material which has lead to shut down of many small companies. Diversification of these companies for making plastic bags from virgin material has resulted in scarcity of raw material thus causing difficulty in keeping their people employed. Strict regulatory norms have been improved on factories around Agra have been brought thus making the entry of a new company quite difficult. The story of meeting export obligations of many companies viz. Pepsi, Nestle, Whirlpool of India, Biocon Industries, etc. has posed problems for many new entrants and probably the government may have to evolve a dividend & balancing requirements as alternatives.

Changing Business Pace

Today changes are very fast and obsolescence is rapidly growing. We know that compact discs which are in great use today will become obsolete within a short period of time. The personal computers market in India which is still growing will soon lose ground due to laptops. The slashing of prices in car market for grabbing a share will also affect the two wheeler industry which may turn to rural markets. The pace of changes has become so fast that in some cases a model of an equipment may become just after it renders a customer. The technology changes are also quite rapid and new entrants coming up with latest technology find themselves out of market within no time. The printing technology for instance, has undergone drastic changes with computer and scanning facilities available at the doorstep. Patenting of proprietary technology create barriers for new entrants unless they come up with new, better and cheaper technology.

Sometimes strategic decisions taken by big players in market creates barriers for entry of new companies. These decisions may be related to raising advertising levels, expanding distribution networks, slashing prices, offering additional benefits, etc. The integration of companies in an industry lowers scope for new entrants. Many companies have integrated with their suppliers with a view to improve quality of incoming materials and some of them have plunged into providing necessary services to their customers with a view to retain their market share or to venture into profitable area of servicing. These changes prohibit entry of new companies to some extent.

Suppliers

Suppliers can hike prices of goods, not follow the delivery schedule and decrease the quality of goods and services thereby twisting the arm of a company with which they do business and demand for better prices, credits etc. This would lead to rise in price of goods but with limited freedom thus making the situation more competitive for that company in a given industry. The clout exercised by a supplier in market depends on many factors.

1. When there are only a few companies supplying a product or service suppliers become powerful. They even form a consortium and share the total orders and dictate their conditions.
2. When the need is for a specific product, which is proprietary of a company and has substantial switching over cost the supplier becomes powerful.
3. When developed for a specific product and heavy investments in tooling, manpower, etc. are made the supplier becomes powerful. It usually happens in cases where products are developed by an R&D group with the help of suppliers. Sometimes when special machine tools, measuring instruments, computer software, etc. are bought by companies, they learn to use these from the suppliers when they are perceived as more powerful.
4. The suppliers at times offer specialised services viz. in situ balancing of machines, analysis of flow pattern of oil in a bearing case, design and development of dedicated software for information system etc. and in such cases the supplier group becomes powerful.
5. Some suppliers intergrate in a forward direction and acquire business of a company by becoming their competitors. Such situation has been faced in many areas in the power industry where suppliers directly contact the electricity boards and supply to them various instruments measuring devices, meters, etc.
6. When a particular company is not an important customer (in terms of volume of business and turnover) the suppliers tend to neglect it as their performance is not directly tied to the company or industry in question.
7. The supplier group becomes powerful when they deliver products and service of high standards thus contributing to their customer's success.
8. Some suppliers have a high core competence with regard to technology and they exercise their strength to gain maximum advantage in a given situation.
9. Suppliers enjoying a high market share and stained market growth, earn high levels of profit with reference to average of industry, have demonstrated a high level of aggressive competitiveness. These suppliers may have low cost structure, strong technical and marketing base and exhibit high level of machine utilisation etc. and are perceived as powerful in industry.

Buyer Group

A buyer group may become strong in the following situations.

1. Usually a buyer group is strong when it purchases in large volumes. This is more so in industries where the fixed costs are high.
2. In the case of standard products the buyer group is strong because such products can be bought from an open market and there would be many suppliers to offer those products or services. Example include like railway booking by agents, property selling and buying, steel sections, aluminum sections, flush doors, thermometers of standard types, etc. The buyers claim

for quantity discounts and do selection purchases. Cases where the price of a product forms a small percentage of the total bought out materials, the buyer are comparatively less sensitive.

3. Companies which have lower profitability have great presence to buy at most competitive rates. Company rules in some cases may be to buy at lowest rates from market creating a highly competitive market for the sellers. Companies which have higher profitability usually do not haggle too much on price and more so in cases where the product in question does not form the main constituent of their purchases in terms of volume and costs. Usually these companies concentrate on competitive buying of their A class items which form the major percentage of the costs of purchased goods.
4. In some cases the quality of a product being bought has stringent specifications and the buyer cares only about its quality and not the price. In such a situation the buyer exercises his right to buy the desired quality of products. This usually happens when the output of buyer's group is affected by the materials supplied by a company. The quality of sheet steel, copper, insulation, etc. may affect the quality of a motor directly and hence any motor manufacturer will not be willing to compromise on quality of these items for lower price. This is usually true for hotel industry where the quality of raw food materials affects business and hence lower quality cannot be compromised for small margins on price. On cases where a manufacture uses equipment from the supplier in his own equipment as for example or filed equipment, electrical power generation equipment etc., the buyer group buys more emphasis on quality. The buyer group is emphatic on quality aspects. This is because substantial financial losses may be incurred in the event of breakdowns due to poor quality of components. When an equipment bought from the supplier is crucial to the operation of process plant, the quality of the equipment is of paramount importance and the buyer group strongly emphasises the same.
5. In cases where buyers have capability and need to integrate towards a direction in which they exercise a check against the suppliers they dictate their terms on their purchases. Many companies do not find it economical to manufacture C class items i.e. items which form comparatively a low percentage of total cost of manufacture and which are required in large numbers. Hence they prefer to buy these items. However, they do possess the technical competence to manufacture these items themselves when met with a crisis.
6. In the four wheeler industry the ancillary industries often face the threat of the key producers themselves manufacturing components like gears, levers, wipers, etc. Thus power of the buyer can be related to the power of the consumers when they are perceived as a group. The same is true for industrial buyers. Only the weightage of each of the factors varies-the approach basically remains the same in both cases. The consumer groups are quick to respond whereas the response from industry is comparatively slow. The

consumers are more price sensitive. In antiques and products of the designers, choice uniqueness is more important than functionality or use. They are not differentiated on the basis of quality and are quite expensive. The behaviour of retailers is also similar, however, they become stronger when they can influence the behaviour of consumers. This trend has been observed in items of personal use like shaving creams, razors, blades, electrical appliances, sporting goods, cassettes, etc.

Effect on Strategies

The power of buyers and suppliers is not static and continuously changes with business situations. These changes maybe due to strategic actions of companies to achieve certain defined objectives or due to technological, social, economic or, legal factors. In the ready-made garment industry, the well known Indian names have lost their market share due to fierce competition from new by established brands from other western countries. The trends of television industry have also undergone changes with old players either losing their market share on going into oblivion. The prices have been slashed to such levels that survival of big competitors has been endangered. The strategic posture of a company can be altered by their selection of buyers or sellers. This is because it is only rarely that all buyers or sellers enjoy equal power. In cases when a company sells to an industry this situation exists in different companies of that particular industry as all companies in that particular industry are not equally strong buyers.

Product Substitutions

The multitude of products, materials, components, etc. which are emerging everyday in the market can affect the strategies of a company. Whenever a supplier group becomes very powerful with its proprietory products, companies tend to go for substitutes, although these are used only after a rigorous testing to ensure that the substitute is either equivalent or better than the original.The concept of substitution usually works by gaining an advantage on price, quality, life, ownership cost, ergonomics, apearance, etc. The substitute products in the case of the automobile industry are very common in the Indian market. The spares marketed by the original manufacturer are quite expensive and hence many companies start manufacturing these similar product which are sold at much cheaper rates. Substitute products are common in two wheelers, television, furniture, electrical goods, cosmetics, educational products, etc. It is noteworthy that the quality of the substitutes may not be of the order of original components or parts, nevertheless these get sold in abundance. The substitute products not only reduce the profits of a company during the bonanza of boom times but also reduce their market share in the long run. In the Indian market duplicate products are sold in abundance and manufacturers of original products are usually unable to protect their interest. By the time an original manufacturer wakes up to take any legal action, the company producing duplicate goods vanishes from the scene taking away its profits. Even in the pharmaceutical field, this type of business is flourishing in different parts of the country.

In the field of insulation, fibre glass insulation materials replaced the usual bitumen insulation and the former in turn will be substituted by a number of other insulation products which are being developed by scientists and engineers. Fibre glass even replaced many structural parts such as asbestos and steel roofing sheets since it allows passage of light thus reducing electrical costs in factories due to lighting. The substitute products usually enter the market when the price of the original product is unattractive. When there is scarcity of materials, substitutes come into play, for example when silk used for building parachutes became scarce during the World War II, the substitute nylon was invented.

Fight for Position

Competition exists in any industry. A company attaining the desired competitive position is based on various factors such as price, introduction of new products with added features like reliability, ease of maintenance, and improved ergonomics, advertising the drawbacks of the competitor's product, etc. Sometimes the competition is very fierce due to the following conditions:

1. Liberalisation of economic policies leads to swarming of the industry by new entrants who make the competition more fierce.
2. Where industry growth is slow, various companies compete with each other for market share.
3. When products lack differentiation, many suppliers deliver the products making competition more stiff.
4. When switching over costs for products are low many manufacturers take up manufactures of the products thus making environment more competitive. This is also true in other segments like distribution, selling,etc.
5. When demand of certain products takes a nose-dive and the products happen to be involving high fixed costs or are prone to decay, the prices go down and there is increased competition amongst the suppliers.
6. Certain factors like natural calamity, poor harvest, and spread of epidemics cause the requirement of certain products or services to be quite high, thus leading to competition.
7. In certain industries which are highly capital intensive or where exit is difficult, a management may not like to switch over to new business thus keeping the environment charged with competition.
8. The entire industry may suffer from over capacity leading to competition.
9. It is usually difficult to produce good quality items at lower costs and jereusers are unable to appreciate quality, many manufacturers mushroom to intensity the competition.

It is found that mergers, acquisitions, and diversification lead to creation of new policies result in the entry of new personalities causing a change in fabric of competition. Technological progress can alter cost of products, thus affecting the competition. The growth rates due to maturity of an industry may lead to narrowing down of margins and eventually becoming unattractive for a group of suppliers.

Based on each factor companies choose appropriate strategies to improve their business.

Multiple Rivals

Vision in business has substantially grown in the recent years. The government policy of liberalisation has lead the companies to redefine their business. They are now not only aiming at products but also the functions in which the customers are interested. Slogans which focus on functions of products and services rather than products thus come out thus giving a wider meaning to competition. We also know that products are designed to perform certain functions and when a product or service ceases to perform the desired function, it loses its value. Hence the focus today is more on functions rather than products. The geographic boundaries business have also lost their meaning in the modern world with information technology playing a crucial role. Today a specialist in India may work sitting in his house and serve a company in the USA through the internet. Competition is essentially becoming international in nature. Therefore companies are focusing not only on the present competitors belonging to their own geographic areas but also on those companies which may become potential competitors in future. As a result of these fluid situations, the definition of industry which was hitherto to encompass companies in tight boundaries of products and geographical locations, is fast losing its importance.

The present situation necessitates the companies to expand their business and penetrate new potential markets. Companies also have to be cautious about hidden competition that may suddenly emerge and catch them off-guard. Hence they are being more proactive in their approach. Today almost every company takes efforts to keep track of new products, systems, markets, etc. to be in tune with the changing time. The remote markets no more remained remote. Companies cannot afford to concentrate only on competition in the vicinity. They have to reach out and sense the fierceness of competition that may be predatory. However, as a strategy, they have to avoid head-on collisions with the competitors. The strategy of cultivating customers through frequent visits and pumping in lot of information about the products and services is widespread. Product differentiations are created through quality, added functions, participating in customer's success, developing business relations with customers or creating psychological impacts through marketing, forward and backward integration, carving out technological leadership, reducing time in the delivery cycle times and giving service anywhere and at any time to the delight of the customers.

FORMULATION OF STRATEGY

Once the cause and effect relationship amongst various factors is established the next step would be to analyse the strength and weakness of a company. It is important to identify the strengths and weaknesses with respect to each of the forces acting in the industry environment (Refer Exihibit 5.7 and 5.8).

Exhibit 5.7 Tackling Uncontrollable and Controllable Factors

	Basic Approach	Sensitivity Evaluation
Uncontrollable Factors	Predicting the likely business scenario	Deciding other relevant scenario
Controllable Factors	Precipitating on selected strategies and action plans	Proactive planning for starting the mechanism action plans

Exhibit 5.8 Need for Strategic Orientation

It is a matter of joy for garment industry because when all Indian Export have shown a downtrend, the garment export has registered a growth of 10 percent in 1997-98 over the immediate past year. The market for Indian companies is in over 100 countries consisting of US, Europe, Middle East etc., however, the share is only 2 per cent in the world market. New competitors like Indonesia, Thailand, Bangladesh, etc. are fast emerging in addition to the present giants like China, Hongkong and Turkey.

Various challenges being faced by the Indian companies are the planing out of quota under Multi-Fiber Arrangement (MFA) enjoyed by India by 2005 as per WTO agreement, nucleation of regional trading blocks viz. NAFTA, EU, SAFTA, etc. leading to discrimination of non-members, dwindling margins due to increased competition, principal markets EU, Japan, Australia, etc. remaining sluggish, the loss of advantage of cheap labour due to technological developments, etc.

The garment industry has been facing many problem viz. inconsistent availability of foods quality of fabric, non-availability of packing material, poor transport infran-structure, unstructured and unorganised small and medium scale units, relying on sub-contracting plagued by long lead times and poor quality, disqualification of a large number of exporters by Apparel Export Promotion council for not fulfilling the export norms, mid-term downward revision of drawback rates, etc.

The industry must take bold steps to turn to new markets in Japan, Middle East, South Africa, etc. and should shed off its excessive dependence on cotton-based garments. The government should speed up the operations viz. clearance form DGFT, customs, banks, ports, etc. There is also an urgent need to provide funds for upgradation of technology.

Source: S.N. Panigrahi, "Garment Export: A Strategic Shift Needed," *Industrial Economists,* 15–29 January 1999.

The crucial strengths and weaknesses of a company must be evaluated to arrive at the present posture of the firm with regard to each of the factor like ease of entry of competitors, where its stand is against entry of substitutes, what its position is with regard to buyer and supplier forces, etc. This study and analysis would lead to devising an action plan to meet various objectives.

A most general approach would be as follows.

1. A company would like to place itself in accordance with its core competencies such that its position is protected against competitive forces.
2. A company would like to take strategic actions such that its position would improve in industry.
3. It would like to be proactive towards the changes and convert them to growth opportunities.
4. A company would be interested in controlling the factors causing changes for its own benefit and creating a competitive balance before the opponents are able to recognise.
5. It may like to trigger off a change that may catch the opponents off guard.
6. It may like to position itself so as to confront competition in some areas and avoid in some others.

QUESTIONS

1. What is the importance of analysis of Industry?
2. What are the various competitive forces that are present in a business environment? How do they affect strategies?
3. Discuss the threat of entry. How does the business environment react to new entrant?
4. What is the impact of economy of scales on new entrant?
5. What is product differentiation and how does it affect a new entrant in business?
6. How do you rate need of capital and competitive costs as a factor for a new entrant?
7. Discuss effects of market mechanisms, government policy, and changing business pace on new entrants.

8. Under what conditions do suppliers become strong?
9. When does a buyer group become strong?
10. How does the power of a supplier and buyer affect strategies of business?
11. What are product substitutes and how do they affect strategies?
12. When does competition become fierce in a business environment?
13. What approach should a company adopt for formulating its strategies based on the analysis of environment?

CHAPTER

6

Study and Evaluation of Multinational Environment

STRATEGIC CONSIDERATIONS

Multinational companies face a variety of complex situations. It is vital for them to consider the multinational environment while doing business. Since the countries in which an MNC operates have different operating environments, its subsidiaries also have varied experiences according to which their strategies and policies also vary. The driving forces, customers, competition, stakeholders, markets etc., are different in different countries. Similarly, the social, economic, technological, competitive, legal and regulatory factors in the different countries influence the business.

Companies make a thorough investigation of their possible business profile in other countries and take efforts to fulfil their objectives of growth and business leadership. The main purpose of any business is to make profits. Strategies and policies are formulated to maximise returns on investments. Many companies which have their head quarteres in the USA run substantially profitable business due to their foreign operations. With the advent of computers the globe has shrunk in the areas of information flow and exchange (Refer Exhibit 6.1). Multinational operations in India have exponentially grown in recent years and are expected to grow even more and at a faster rate in future. Managers of today realise that an understanding in a multinational environment is becoming more important. Not long ago the transnational corporations in India were regarded as evil. They were viewed as companies with missions of imperialism and which were designed to threaten the political and economic sovereignity of the country where they operated. They were viewed as these destroying development of local technological base by suffocating the entrepreneurship in markets that they entered by pumping in more money.

Exhibit 6.1 Electronic Immigrants

A social change due to electronics is going to take place and electronic immigration may become a very sensitive international trade in the new millennium. The service workers may now telecommunicate across the national boundaries through computers and may perform a variety of tasks and compete in the global arena.

Sources: Marilyn M. Parker, adapted from *Strategic Transformation and Information Technology Paradigms for Performing While Transforming.*

The changes in liberalisation and globalisation during the last five years have brought about a change in this viewpoint. There is a gradual shift to the idea that foreign investments would bring in new technologies, professional approaches in management and an improved quality of business culture along with the needed capital which is required to boost the economy (Refer Exhibit 6.2). Narasimha Rao's government opened the markets for foreign players.

Exhibit 6.2 Alsthom & ABB Merging Generation

The global merger of power generation businesses of Swiss multinational, Asea Brown Boveri (ABB) an Anglo French engineering group, Alsthom will lead to capability mix coupled with economies of scale and will enable competitive cost levels. The merging is into a 50/50 joint venture with revenues of $11 billion. The decision came with an objective of being successful player in the demanding and dynamic market where a comprehensive range of products and solutions, a commitment to technological renewal and a presence is required. With the synergies flowing from the merger, this joint venture will make its presence felt in the Indian sub-continent.

However, the joint venture company would be second to BHEL which has a market share of about 80 per cent, others with only 3 to 4 per cent share.

Source: Shubham Mukherjee, *National Mail,* March 23, 1999.

But while learning to collaborate with foreign firms, Indian companies do face various problems. The Indian partners prove to be no match for their foreign counterpart in matters of finance, technology, enterprenuership and trained manpower which reveals the in-built flaws of these ventures. In some cases hasty selection has over burdened foreign partners. This was because most transnationals thought that fully owned subsidiaries were not permitted by the government. In actuality, 100 per cent route was easier (Refer Exhibit 6.3). Many transnational companies feel that they had been tricked by the government, however, the adhocism and the casual use of discretionary power had been responsible for these state of affairs. The set norms were usually absent in the proposals of transnational companies thereby engulfing them in a cobweb of suspicions. The foreign companies also were probably unsure of the government's committment to the process of globalisation due to fluid political situation in the country. In a document by CIS titled 'MNCs; Indian Strategy Needs Rethinking,' issues related to deal breaking and slow down on investments were deliberated upon. The document opposes unconditional foreign investments, but how long transnationals would collaborate with Indian partners who have virtually nothing to offer.

Exhibit 6.3 ABB'S Transformers

ABB has set up a transformer manufacturing plant at Maneja, Vadodara. ABB, a world leader in the business of transformers, has 24 manufacturing units across 17 countries with a 21 per cent global market share...pa

Source: *Powerline,* August 1998.

EVOLUTION OF MNCS

Multinational business involves a variety of strategies. These strategies can be considered as many fragments which may be summarised on the following steps.

1. In the first step of the strategy, only import and export activities are involved. There is no significant effect on current management orientation with regard to product lines, quality, etc.
2. In the second step foreign licensing and transfer of technologies are involved. This step also may not entail any change in management orientation, structure, and operation.
3. In the third step the activity of direct investments in overseas operations may be involved. This may include setting up of manufacturing facilities, transfer of technology or even management of these foreign units. It is in this last step that careful strategic decision is required to be taken since large capital outlays may be involved. Timely results are required for complete involvement in management, operations, planning, etc. and also to develop and decide strategies for each of these areas. Management effort is also directed towards development of overseas skills in various aspects including culture, legislature, economics, politics, etc. However, the policies of a company in parent country dominate. Company may slowly increase its capital outlays and assets which may form an appreciable percentage of the total capital outlay. Some companies may speak more of their multinational nature by

highlighting their international business intentions while others may choose to downplay the same as part of their strategy.

CAUSE FOR INTERNATIONALISATION

Every country specialises in some product, service, technology, business, etc. In order to make best use of market conditions and the expertise, companies operate at the international level (Refer Exhibit 6.4). France is well known for its advances in electric traction, nuclear power, and aviation industry, hence any enterpreneur in these areas would like to approach companies in France. Japan leads in the fields of optics, solid state physics, process metallurgy, etc. and hence has contributed to technological growth in these areas. Nowadays, we see Indian markets flooded with Japanese brands of music systems and televisions. Swiss watches have been attracting people from around the globe. Russia has made advances in the field of metallurgy. India is famous for its handicrafts.

Exhibit 6.4 World Economy and the Big Corporations

The top two hundred colossal corporations now control over a quarter of the world's economic activity. These firms are creating products and finances that bring economic benefits to a third of the world's people. The study by the Washington based Institute for Policy Studies says that there are now 40,000 corporations in the world whose activities cross national boundaries. These companies ply overseas market through some 250,000 foreign affiliations. .pa

Source: Economic Times, November 1998.

Until the 1960s many multinational companies operated as autonomous subsidiaries in each host country, each catering to the specific needs of its own home market. The management at the head quarters focused mainly on finance function, transfer of technology, export coordination etc. The competitive advantage that an MNC enjoyed was evident from its competence in transfer technology, manufacturing know-how, development of brand loyalty and marketing capabilities which varied from country to country. The MNCs proved to be more efficient than their competitors (local manufacturers) in the host country with regards to price, quality, and management of know-how.

Standard forms of management and administrative procedures were used to cut down the overhead costs. Once a company entered a country and was able to manage its subsidiary in that country, it was easier for it to expand and enter other businesses at very low incremental costs. Their negotiations were with the government of the host country and did not enter into open competition (Refer Exhibit 6.5).

Exhibit 6.5 Factors Determining Mergers and Aquisitions

News about mergers and acquisitions has become quite common in Indian business scenario. The price in any deal is the most involved factor. When we see any business at conceptual level (the assets and intangibles), its components can be visualised to yield different economic returns to different people depending upon their capabilities. If both the parties perceive a business of same value, an acquisition or a merger may not even occur. It is the theory of differential efficiency alone which probably leads to a deal. Hence the process involves assessment of the both the parties by each other. This assumes even a more important dimension in joint ventures. With this strategy the negotiating variables embodying the transaction are analysed. Typical negotiating variables can be initial sale consideration, deferred or annual payments (royalty, etc.), management cooperation, price of imports and outputs, dividends, sharing of costs, etc. For arriving at a result, financial modeling is resorted to. The structuring of transactions for maximising interests of both the parties involved is another dimension which is crucial. The leakages (sales tax, stamp duty, income tax, etc.), government regulations on foreign investments and takeover code, capital structure, financing needs, and business considerations are other vital factors for structuring the transactions. Mode of transactions, transaction vehicle (a subsidiary) and the human element are some of the factors required to be given due consideration.

Source: Raghunath T. V., "Stitch It Up and Stitch It Down," *Economic Times,* February 24, 1999.

By the 1970s the business scenario underwent major changes worldwide. The national responsiveness was no more a criteria. This situation began its existence in India around 1991. The competition had already broken out on a global scale and many companies from Japan, Europe, and US started pursuing international expansion due to trade liberalisation which openend the doors for new market opportunities in industrialised as well as less developed countries like India. The national market arena transformed to a global one particularly due to business strategies of the Japanese companies. They gained strong bases in the host countries through their lower-priced and higher quality products compared to the hitherto established companies. Many companies became more specialised in their production operations to gain economy of longer production runs through use of more automated equipments and used their experience curve for competing rather than manufacturing the complete range of equipment in one country (Refer Exhibit 6.6). With a global strategy the companies started their business in countries where manufacturing costs, labour costs, etc. were lower and could make best use of laws related to taxes thus benefiting from tax differences. The companies set their transfer prices to take advantage of tax structures in various countries. The strategic coordination also reaped benefits due to different interest rates, exchange rates, credit terms, government subsidies etc. in different countries.

Exhibit 6.6 Joint Venture in Air Conditioners

Since economic liberalisation, the air conditioner market has steadily grown in India by 15–20 per cent. Hitachi Ltd. has gone ahead with investment of about 160 million in joint venture with Amtrex. The name of the company will now be Amtrex Hitachi appliances Ltd. pa

Source: *Industrial Economists,* 15–29 January 1999.

During the 1980s, as a strategy many MNCs diversified in related fields or industries. As more companies diversified, a point was reached where a diversified company was considered more superior than a non-diversified company. The expertise in core technology various industries by the MNCs (Refer Exhibit 6.7). Honda diversified into manufacturing lawnmowers, power generators, garden tillers, and cars—all on the basis of strong Engine Technology.

Exhibit 6.7 Morality of Corporate

The average life of a typical MNC is usually 40-50 years. Out of 12 giants on Jan 1, 1900 only GE will witness Jan 1, 2000. Out of the total of 500 companies listed in 1970, about one third have either been acquired, merged or broken into pieces. This has happened in India also, wherein out of 50 Indian companies in 1939, 32 were British companies which are no longer there, 18 companies were the national business houses and 7 were private companies—Tata, Birla, Lalbhai, Wadi, Walchand, Mafatlal and Shriram are still going strong. Their corporate morality appears to be the phenomenon everywhere. .pa

Source: R. Gopalakrishnan, "Competensity: The New Paradigm," *Industrial Economists,* 15–29 January 1999.

CONSIDERATIONS IN INTERNATIONALISATION

Companies which internationalise their operations consider various factors while doing so. Some of the important factors are listed below.

1. Scanning the international situation is necessary for any company to exploit the opportunities that come its way. The threats that a business may face in future and the development of necessary preparedness to deal with various business situations would be revealed as a result of scanning. Scanning is

done through reading of journals, magazines, patent reports, etc. and meeting people in business in these countries.

2. Developing connections with academicians, R & D organisations, and research organisations often give an insight into the on going activities in a country. Personnels in these organisations can be helpful to in framing joint projects for mutual benefits of both the countries involved.
3. International visibility of a company must be enhanced through participation in seminars, meetings, trade fairs, exhibitions etc. News letters, magazines, journals etc. which contain information about the various activities of an organisation may be published and circulated to customers all over that country.
4. Some multinational companies go for joint ventures and technology transfers and take up joint projects to develop contacts and to build their image. company. They may also use their influence to stall entry of a new competitor.

A company should thoroughly assess the environment of industry before entering into joint venture. The postion of a host country with regards to business of company should be carefully examined. A careful evaluation of the vital international issues which affect the host country must be made (Refer Exhibit 6.8). The economic progress, political stability, nationalism or swadeshi feelings (Refer Exhibit 6.9), plan for expansion of facilities, balance of payments, technological policies etc. are some of the pertinent factors which must be analysed to get more clear idea of environment of the host country.

Exhibit 6.8 Omdoam Drug Industry Faces Export Problems

Industry sources report that clearances from US Food and Drug Administration (FDA) are becoming increasingly difficult for Indian drug manufactures. Initially the export was easy but now US government agency tell that they do not have staff to send down to India to inspect plants and additionally they also started saying that they must approve the chemicals.

Source: *Business World,* Sep. 22 – Oct.6, 1998.

Internal assessment of the factors that would cause the company to be successful within a country must be clearly identified. These strengths would provide a bargaining leverage to the company in the host nation.

Exhibit 6.9 Maruti's Winds of Change

Swadeshi is a very appropriate slogan for India due to presence of its large technical work force along with other resources. This concept was already working at MUL before it was coined as a slogan in the present context of globalization. MUL has 95 per cent indegenisation to prove it. It imports items requiring huge capital investment.

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

Based on the preference of the host nation, the elements should be ranked. It is important that the resources and strengths versus global capabilities must be analysed. Various resources viz. capital, labour,materials, skills, infrastructure etc. may be considered for analysis. Some of these factors which are vital for any company to be examined are discussed below:

1. Economic Factors
   - Size of GNP
   - Projected growth rate
   - Foreign exchange needs of host country
   - Market share matrix
   - Rate of growth of market
   - Tax rates, personal incomes, corporate taxes, etc.
   - Tax treaties with home and host countries
   - Tariffs and laws of tarffs
   - Profit margins enjoyed
2. Political Factors
   - Form of government
   - Stability of government
   - Attitude of people towards foreign investments
   - Inclination of customers or competitors towards foreign investments
   - Policies of favouring certain industries
   - Government policies related to new businesses
3. Geographic Factors
   - Modes of transport
   - Efficiency of transport
   - Connection of site by rail and road head
   - Availability of local raw materials
   - Availability of power, water, fuel and other amenities
   - Climatic conditions
4. Human Resource Factor
   - Availability of trained manpower
   - Problem related to language and methods to overcome it
   - Way of life of local people, discipline etc.
   - Social problems like militant groups etc.
   - Unionism and laws related it

5. Capital Resource Factors
   - Cost of borrowings
   - Convertibility of currency
   - Banking systems
   - Other sources of money
   - Rates at which money is available
6. Business Factors
   - Marketing agencies and their systems
   - Distribution networks
   - Stocking facilities
   - Competitor's analysis
   - Available technology in host country

DIMENSIONS OF MULTINATIONAL ENVIRONMENT

Strategic planning for companies at a multinational level is a more complex process since it involves the home and the host countries. In the case of companies operating in a single country, most factors that have to be known for the purpose of strategic planning can be easily obtained. But a multinational company has to face a host of factors which may come to surface only when business is actually commenced. Some of the factors contributing to complexity of analysis can be summarised as follows:

1. The multinational company encounters with multiple political, legal, technological, social and cultural environments.
2. The rate of change of these factors further complicates analysis.
3. The social and economic conditions in two countries may vary widely. Likewise the business environments may also be different thus adding to complexity.
4. The planners in the host country may find it difficult to clearly communicate all the above aspects to the home country. Similarly if may be difficult for managers in the home country to understand these factors in the correct perspective.
5. Multinational companies may face severe competition from companies in the home country and have to consider social, cultural and ethical dimensions to be competitive.
6. Various organisations with the host country may impose restrictions on the strategies selected by a multinational company making the situation more complex.

CONFLICTS FOR MULTINATIONAL COMPANIES

The interest of the company is the main or only focus when a multinational company designs its goals and policies. The financial policies of multinational companies are so framed that they lead to furtherance of its goals while only little attention is given to the goals of the host and home countries and the employees of two countries in question.

Conflicts emerge due to various policies concerned with the shifting of earnings from one country to another for purposes of avoiding taxation, duties etc. and minimisation of risks in order to accomplish profitability and creation of surplus. Conflicts also arise due to differences in measurement and control systems that exist in different countries. We must appreciate that all the rules cannot be written down to the minutest of details and even if this is attempted, interpretation of each of these rules, policies, or requirements may vary from country to country depending on various cultural and behavioural factors. The differences in measurement, control and reporting systems, result in varying interpretations of reports, policies, rules, systems, etc. thus leading to conflicting situations. Thus consistent procedures and methods of analysis should be established for line staff and managers. It is for this purpose that, a company normally trains people from host countries. Procedures for planning and effective reviewing also have to be designed and installed. The system of accounting, government regulations about disclosure of financial statements, and attitude towards measurements are some of the important factors which are to be streamlined to avoid conflicts (Refer Exhibit 6.10).

Exhibit 6.10 Price Variations Narrow Down Due to Currency

The birth of Europe's single currency is likely to ram home to consumers in the European Union the large differences in prices they pay for various goods ranging from beer to cars. The companies will come under pressure to narrow the gap. The price disparities which are as high as 50 per cent will have to be bridged. Prices differ on average by 23 per cent in Euro-11 zone, twice as much as in US, according to a study by Lehmann brothers, which hopes a downward convergence of prices. In home markets prices are a little higher due to captive customer base and hence companies are keen to compete in other countries. The Euro is also likely to increase pressure on government to bring takes closer rather than provoking an increase in cross-border shopping.

Source: Amelia Torres, "Single Currency to Make Firms Narrow Price Gaps," *The Sunday Times of India,* December 27, 1998.

Problems of poor and ineffective management can be well addressed through a step-by-step procedure emerging out of strategic planning by a company. The objective of any business enterprise is to create an environment for effective communication and develop new methods for planning and development through coordinated efforts in order to achieve of well integrated companies and also to make people understand the intentions of the company at the grass root level. Some of the factors leading to conflicts are summarised as follows:

Language

English is a language spoken worldwide, yet pockets of people in different countries do not understand English at all. Even in India many workers do not understand English quite well. Thus it is imperative for the managers to learn the local language.

Many companies in India today are trading in consumer goods, clothing, etc. with countries which were once a part of erstwhile Russia and these traders who visit those countries in large numbers have learnt their language. A Marwari businessman in West Bengal learns to speak the local language fluently in order to perform his routine work. The same is true for a north Indian doing business in Chennai.

Culture

The office and factory culture countries substantially differs in different countries. Even within a country there may be varied beliefs, cultures, and behavioural patterns. The festival seasons, dress, food habits, and also beliefs greatly differ. It is important for a manager to understand, study carefully, and appreciate these differences. Once the differences are identified, suitable strategies can be evaluated (Refer Exhibit 6.11).

Exhibit 6.11 Dimensions of Culture

It is suggested that there are four universally applicable dimension of culture. Each dimension is measurable in terms of its absence or presence.

Power Distance
This dimension is useful in addressing the basic issues of human inequalities arising out of prestige, wealth, power etc.

Uncertainty Avoidance
There is a tolerance of uncertainty about future (with regard to changing company policies that might create stress due to uncertainty of jobs) which varies in different countries.

The Individualism
The dimension addresses typical relationships between the individuals and the collective society within the framework of national cultures.

Sex Roles
The activity of socialisation through various areas like schools, families and media creates a pattern that allocates specific characteristics to each sex. Some cultures project and women with material function.

Source: G. Hofstede, *Culture's Consequences: International Differences is Work Related Values,* Ca: Saga Publications, Beverly Hills, 1980

Economy

Conflicts in the understanding of the real issues and problems which must be carefully addressed arise due to a host of economic factors like the living standards of people, per capita income, and buying power. Economic conditions in a country give an idea of the buying power of people. Economic growth patterns indicate possible growth patterns of market companies which are inclined to start business in another country should carefully study these patterns. Various car manufacturers, proved to be wrong in their perception of India as a big market for cars due to their oversight on various vital economic factors.

Government Interference

The Government of a country may, as a policy, exercise strict control over certain industries. It may also impose certain regulations on price, marketing, availability, etc. and these must be carefully looked into by an MNC. The political climate and stability and law and order situations in a country must be its prime concern. In a democratic set up, the voice of the people is of great significance. Various swadeshi groups in India which trade against foreign companies strongly oppose some MNCs. These groups encourage people to stop buying goods, particularly pesticides, seeds, medicines etc., is unable to take any measures to protect the rights of these companies.

Human Resource

Cheap and trained labour is a factor which would attract MNCs. Availability of trained human resource may not need any investments with respect to redesigning of production methods layouts etc. In India trained manpower is available at much lower costs. An average Indian works for more number of hours per day compared to his counterpart from the western world. The remunerations demanded is also comparatively low. These, coupled with the willingness of the government to promote invesments in the country, have attracted many MNCs.

Finance

Finance available from local financing companies and their terms and conditions are important and need to be examined by MNCs. Companies should carefully explore the cost of procuring money from the markets which influences their business decisions. Financial conditions varies according to the business cycles and sometimes it is extremely difficult to get money from markets thereby shooting up the interest rates. During times of recession, money simply may not be available. Particularly in India, one of the prime reasons for permitting foreign investments has been non-availability of finances for development of infrastructure.

Facility for Market Research

A lot of data is needed for conducting market research and this is obtained by talking to customers, users, manufacturers, dealers etc. These are organisations which conduct such studies for various companies. The MNCs may make use of these studies to generate data. Usually students pursuing management courses take up market research projects as part of their curriculum and generate various reports which can be used by companies. Alternatively companies may get help from various educational institutions for conducting surveys. Likewise practising consultants can also provide data, based on which they may carry out relevant research work.

Advertising Media

A product is publicised by advertisements in various media. The use of a particular media depends on how well it is exposed to the people. In some countries the literacy percentage may be low and thus advertising in news papers, magazines, and journals fails to attract people. So other forms of so, advertising on television, radio, etc. are adopted. Companies also advertise through sponsoring of sports events, music, drama festivals, etc. They promote their product sales through door to door selling. In fact advertising technology has grown a lot in the recent years and has added to cut throat competition as is evident in case of detergents, home appliances, and consumer durables.

Currency

Countries have their own currency and governments put restrictions on foreign exchange. These restrictions create various problems in the business world all of which must be addressed by a company before venturing into business in another country. Covertibility of currency is an important aspect of international business and this factor is also given due consideration.

Transportation

The MNCs should study the operation of various modes of transport in use within a country. Timely delivery of goods and receipt of raw materials may be vital for many industries and at certain times this issue may become quite critical. In the case of power equipments sequential and timely delivery of various equipments that go into their construction is quite important, and delays may result in huge losses to a company. Sometimes very big and heavy equipment may be required to be transported to remote areas for setting up a factory. This requires the availability of adequate means of transport. The development sometimes, companies develop their own transportational infrastructure to avoid delays.

Communication

An effective system of communication should be available in a country for attracting MNCs. In earlier days, telephones, faxes, and e-mail were available to a few groups. But today the scenario has changed. These facilities are abundantly available and are also quite inexpensive. With the computer prices going down due to government policies, transmittal of data has been simplified to a large extent. Private companies have also entered the field of communication to compete with the department of telecommunication thus bringing about a crash down on prices.

Control

An optimum control may be required for the successful working of an MNC in a country. A limit of control should be drawn and it should be decentralised to ensure proper functioning. Earlier there were many formalities to be completed by companies to start a business but today the rules have been simplified and time for approvals and other formalities considerably reduced.

Contracts

Contracts are usually binding on both parties, however, sometimes contracts may require reviewing and re-evaluation. A culture of honouring contracts and abiding by the terms and conditions of the contracts is necessary for executing them. In some countries there is a poor law and order situation bad and people seldom respect laws. This leads to many legal problems. People find new and ingenious ways to break laws and escape legal actions. Under such situations, MNCs may face difficulties in operating and protecting their business interests.

Unionism

In some countries labour unions play a very positive role and help in building harmonious relations between the management and workers. In others the union activities get plagued by the petty self interests of leaders, or political parties may start exploiting the union groups for their own selfish ends and may paralyse the total operations of a company.

We can cite several examples where unions became so powerful that the fight between the management and workers lead to the closure of almost all companies in the industry. At one time, textile business in Maharashtra was very badly affected by unionism. In West Bengal also vigorous union activities has resulted in closure of many companies. Aspects related to unionism must be carefully examined by companies.

STRATEGIC PLANNING

MNCs exist in a very complex business environment in a foreign land and hence a careful analysis of relevant environmental dimensions is vital to their survival and growth. Their applicability of decisions in a specific country should be considered. One decision is dovetailed to a multitude of factors thus affecting many areas of operation. A manager faces with complex situation wherein he has to take decisions on multiple products, environment, technologies, resources, markets and its segments, employees, etc. and on various issues faced by corporate and its subsidiaries. Strategic options may be many, but the one which is decided for implementation has to be evaluated considering many complex interacting and interdependent factors.

Strategic choices of MNCs are made even more complex activism of stake by the holders and globalisation. As a result of activism of stake holders politicians and bureaucrats of the host country force demands, even illegitimate one on the company to which it has to blow down. Globalisation places a country in a highly competitive environment wherein customers demand customised products and services against the standard package offered by companies.

CHARACTERISATION OF MNCS

Based on a model developed by Michal E. Porter, businesses can be characterised on a scale from multidomestic to global industry. The purpose of categorisation is to understand the general characteristics of industry of which the company is part.

Multidomestic Industries

In these industries the competition within an industry does not affect the competition in other countries. The dimensions of competition are unique to a particular country. In this category we consider industries like consumer finance, insurance, distribution, retailing etc. and also businesses controlled by policies of government of host country.

In multidomestic industry environment, usually a company is managed as an independent entity. The management is empowered to take strategic decisions as per the demands of the local environment. However, decisions are largely based on the basic strategic framework of policies of the company. This depends on many factors viz. the demand of the drivers of business in local market for specific product features according to their preferences, the fragmentation of industry with several players, dependence of company on corporate for inputs, prevailing distribution and retailing channels, economics of scales of operation, etc.

Global Industries

A globalised industry is one where the competition in a specific industry crosses the national boundaries. A firm operating in different countries, will take a strategic move in a country keeping in view its effect in another country because its position may be either jeopardised or be to its benefit by such moves. Competition is not limited to one country but affects the entire industry spectrum in the world. Computers, air crafts, electronic goods are some examples of this industry. MNCs in such cases cannot treat their companies in various countries as independent units and would have to decide their strategies keeping companies in all the countries in view. The extent to which a particular industry is global is governed by its requirement of higher R&D expenditures that may require recovery from many markets, homogeneous product preferences, losses due to number of competitors in fray, lower trade volumes, dominant multinational companies in a market meeting customer's need through consistent product designs and satisfying customer's needs and expected return of value for the money spent, etc.

CHALLENGES FACED BY MNCS

We can never classify any industry as purely global or multidomestic. It is between these two extremes that most of the industries usually operate. An MNC which is in competition in a global industry cannot afford to be non-responsive to local markets and customers. The vice-versa is also true—in a multidomestic industry an MNC cannot afford to ignore global opportunities coming its way. In fact MNCs have to rightly maintain a balance in their performance to take care of the needs of global as well as multidomestic industry environment. There would be some activities focused to the global operations whereas some others are focussed to the multidomestic business environment. Thus strategic decisions to the amount and nature of coordination between the two would be required to be taken by a company. The intensity of competition in host and home countries may be different and a company may have to take decisions as per its preferences for expected results in selected markets. The real challenge lies in balancing its decisions and actions to accomplish desired results.

LOCATION OF FUNCTIONAL ACTIVITIES

Various functions like marketing, designing, research and development, manufacturing, purchasing, etc. are involved in any business activity. Each of these functions may be located in different countries or cities. An MNC will have to decide about location of each option, however, the best combination that may suit the working of a company and volume of business activity is to be decided by the company.

Some companies prefer their marketing and research, and development activities to be centralised and thus cater to the needs of various divisions in different countries. Others may want these activities to be spread out in different countries. Similarly some companies may decide to carry out the assembly of products in one country whereas components going into assembly may be manufactured in one or more countries. Such strategic decisions are taken keeping in mind various vital key issues that would enable easy operation (Refer Exhibit 6.12).

COORDINATION OF FUNCTIONAL ACTIVITIES

The units located in different countries perform various functions for which they need some coordination. The degree of coordination required has to be decided by an MNC. Sometimes coordination requirements may be very low, however, at times these may be quite high. A company may decide the degree of coordination requirement as part of its strategy. Some companies like Coca-Cola, Pepsi, Kelloggs, IBM, etc. coordinate their R&D and marketing activities and maintain their quality and brand name worldwide.

MYTH OF MULTINATIONAL POWER

There is a general belief that multinationals dominate all other businesses. The first hundred largest companies control 60 percent of global assets. They are powerful as individual corporations as they are responsible for more than half of the trade of goods manufactured and serviced. They have also contributed towards changing the life styles of people around the globe. However, the present trends show that most of the MNCs are in a true sense not being multinational. They have failed to establish or identify together for their benefits. It probably did not occur to them that shaping of the future was responsibility of business organisations. It was generally considered by most of the organisations ,that the shaping and designing of the future, is the responsibility of the government and not of the business corporations. Thus the power of multinationals got shrunk within boundaries of their organisations.

Exhibit 6.12 Locational Issues of Functional Activities

Functions	Locational Issues	Coordination
Business Operation	Location of manufacturing facilities, employment, living standards, etc.	Networking to meet requirements of turn over, quality, payments, profits, etc.
Marketing	Product Mix selection, market segment size, customer needs versus product features, incentives brand image, etc.	Brand image, sales turnover distribution and supply, pricing cycle time involved, etc.
Service	Types of services offered, service cost, quality of service, location of service organisations, etc.	Norms and standards of services, costs, availability, etc.
Research and Development	Availability of researchers, facilities, number and location of R&D facilities.	Exchange of R&D issues, interaction on research matters. Product development as per customer needs, etc.
Purchasing	Regulations related to purchasing contracts, etc., availability of supplies and their strengths weaknesses etc., location of purchasing activity.	Management of vendors spread out in various countries, taking benefit of economies of scale market knowledge.

Another wrong belief is that multinationals are losing grounds to the smaller firms. The theory, 'The bigger the world economy, the more powerful would be the small players', was propounded in 'Global paradox' by John Naibitt. In fact the core people in any organisations are well paid while the workers in the periphery who are sub-contracted and who fuel the growth of small firms are not so well paid. As the core grows, the periphery may shrink and options of life time employment by the multinationals may become prevalent. It is necessary for global companies to coordinate their functional activities to be able to compete across various countries in which they do business by making their options on employment based more on a long-term vision instead of myopic alternatives.

STRATEGY OPTIONS

Various dimensions can be considered for deriving basic international strategies. However, the following six distinct strategic options may be available to a typical company willing to become multinational.

1. Give license to foreign companies to use the technology developed by the company to produce and distribute its products.
2. Carry out production of goods in one country and distribute the products through exports, using its own channels or other existing, channels in other countries.
3. Chalk out strategies for the country where company chooses to operate by being responsive to needs of customer and withstanding competitive forces. Usually strategic decisions differ from country to country there is seldom any coordination between its offices in two countries.
4. Device a low cost strategy and meet demands of markets all over the world. The strategy of the company would be to achieve a low cost position in relation to its competitors.
5. Differentiate products and services in each country where company operates based on the same attributes and make its presence felt. A close coordination among all the countries is then required.
6. Follow a global strategy focused on strategically important market of with closely knit coordinated efforts to gain leadership.

DIFFERENCE BETWEEN MULTICOUNTRY AND GLOBAL STRATEGIES

Multicountry strategies arise due to vast differences that exist among various countries. For instance there is a vast cultural difference between India and the USA. Other significant differences are economic, political, competitive etc. A company which wishes to produce and market a product in these two countries cannot follow a common set of strategies in both the countries. The overall international strategy is the collection of strategies followed in each country. It can also be said that multicountry strategies are suited for industries where multicountry competition drives the business.

A global strategy adopted by a company is the one by virtue of which it competes globally and remains the same in all countries with very minor country to country variations. A global strategy essentially involves coordination amongst all company offices in the world and in various countries and it aims at selling in all those countries where a significant market exists.

COMPETITIVE ADVANTAGE THROUGH GLOBAL STRATEGIES

Global players generally use their R & D, low cost of manufacturing through use of low cost technology, producing goods of value to customers for lower amount of money spent, and well knit distribution, and deploy it to their maximum advantage through closed coordination amongst their companies in various countries for overall lower costs and attract customers through product differentiation as part of their global strategy. This specific advantage is not available to the multicountry operator. Also a domestic competitor due to absence of such a network as available to the global company, may find very difficult to compete with a global company on some fronts.

MULTINATIONALISATION OF CORPORATE MISSION

Multinationalisation of companies brings about radical changes in their strategies. The decision of a company to go multinational exposes it to several challenges, threats, opportunities, risks etc. The direction of growth and the timeframe in which it wishes to achieve a defined position in the competitive environment must be first deliberated upon by the company and strategic intentions cast before going multicountry or global.

The corporate mission of companies develops in stages during its growth. The basic values for which it comes into existence are of great importance—some of which may emerge from the strengths and proprietary knowledge of entrepreneur. As the company grows, it faces more complex and intricate business situations wherein it alters its mission and defines new bench marks for being successful.

Every company has its own bench marks that it derives based on various factors. Some of these can be reduction in production costs, improvement of product quality, quick development of new products, increased international participation, seeking diversification, improvement customers service, reduced cycle time etc. The existing level and stretched levels that a company would like to attain are clearly quantified and defined.

Some of the performance objectives usually considered are growth rate, profit ratios (gross margin, return on equity), reinvestment rates (capital investment as percentage of sales, R&D expenditures as percentage of sales) debt equity ratio, dividend payout etc.

STRATEGIC ALLIANCES

Strategic alliances are neither mergers nor full partnerships. There are various areas like joint research effort, technology sharing, joint use of production facilities, assembly of finished products etc. which fall under this category. Strategic alliances enable companies to compete global levels, in different countries and yet maintain their independence. Big firms in developed countries enter into strategic alliances with small firms in underdeveloped countries for pumping in their products. The basic reasons for which companies enter into strategic alliances are to reap benefits of economics from scale in manufacturing and marketing, to fill technological gaps and acquire market access which is otherwise quite difficult. All strategic alliances are not fruitful and they do have some problems. It requires a lot of communication and trust building and involves high coordination costs. In order to make strategic alliances successful, some ground rules must be followed. These can be summarised as follows:

1. A compatibility with partner should be built with clear and better communication and development of understanding and trust. The returns of this effort may not be immediate but in the long run it definitely pays.
2. The products and services chosen must be complimentary in nature rather than competitive. The companies should join hands to synergies.
3. The speed of transfer of knowledge should be fast and its amalgamation into the fabric of the receiving company even faster.
4. The sensitive information should be adequately screened off.
5. The alliances are usually temporary for mutual benefits and should be terminated once they lose their meaning.

STRATEGIC INTENT

The international market has many competitors having different strategic intentions. Based on their intentions, the classification of the companies can be made as follows:

1. Some companies strive to become global leaders in specific areas and they form their strategies accordingly.
2. Some companies strategically defend their domestic dominance in the home country although they may be doing substantial business elsewhere in the world market.
3. Some companies have high responsiveness to host country and they do business in many countries and are proactive to the markets of host countries.
4. Some companies focus only on domestic markets while keeping an eye on the international business situation only with the purpose of maintaining their position in the home market.

MNC MISSION STATEMENT

When companies expand across national boundaries to explore new markets or production opportunities they have to review their desired directions of growth. They may. It is known that in the strategy design process, scanning of environment plays a crucial role and hence a company process environment plays a crucial role and hence a company in a new environment will have to gather information that may be necessary and assimilate the same in strategic management process. Environment really becomes plural for companies. The home environment and the environment of the host country, both affect the strategies. Hence it becomes important for companies to review their mission statements in light of the new environment and decide upon the new probable and desired results.

The mission statement should permit executives of a company to explore new alternatives in the new environment which affects the decision making process of an organisation. It is found that diversities of various forms viz. financial, cultural, political, and economic occur in various countries and hence mission statements should permit this freedom to its employees. The executives from India view organisations as social systems whereas those from USA view it in the form of contracts. Hence an Indian, a company mission statement not reflecting this social aspect may not be Welcomed or properly understood. The multinational contingencies should also get adequately reflected in the corporate mission statement. Due to internationalisation of operations, new capabilities are developed in a company and the mission statement must cover this factor as well, for it to be comprehensive.

With regard to service, market, technology, manpower, etc. a company must review its mission statement. A company which excels in domestic market in these and some other factors can exploit its potentials when it goes global or multicountry. However, multiplicity of contexts will require reranking of its priorities and may also require redefining the primary market and customer profile. Some trade off may be necessary in product or service design to suit specific needs of customers in a specific country and the mission statement should permit this flexibility.

The internal mechanisms by way of which a company fulfils its mission statement must be reflected in it. In case a company decides to follow some norms of integrity or to establish a centralised corporate activities, it should reflect the same in its mission statement. On the whole a company must be prepared to address in its mission statement all the requirements of business that emerge from internationalisation in such a way that the employees and others have a true picture of company.

With regard to company goals of survival, profitability and growth, a company should carefully analyse environment of host country before incorporating these factors in mission statement. A host country may be hostile towards MNCs who believe in making profits as their sole motto. In third world countries social welfare and community development gets priority over rapid economic growth. This scenario may be fast changing, however, opposition to profit goals in certain industries does exist. When Hindustan Machine Tools went in for manufacture of watches it was a dream of the then Prime Minister to make available a watch to every Indian and hence the selling prices were kept below the cost price and today we see the plight of HMT. The same is true for scores of other government undertakings, however, today with liberalisation the profitability has become common denominator for India and no company whether in government or private sector does its business without keeping profit in focus. Rajasthan Electricity Board which was hitherto in the hands of Rajasthan government and was having losses to the tune of thousands of crores is on its way to privitisation. Profits when perceived as a result of corporate atrocities, in the context of a multinational, may only contribute to failure of MNCs and may even endanger their existence. Hence the MNCs should design their statements of mission crossing the myopic needs of profitability and economic growth and focus on a higher order mission. It should aim at bidirectional and reciprocal benefits to home and host countries. As soon as a country becomes aware of technologically obsolete products being dumped or hazardous products being produced by an MNC for the sole purpose of profits it faces opposition from people and government. A company may choose to be profitable at the same time it should express its responsibility towards the social cause of the host country. The major claimants of an organisation must feel satisfied and for this to happen the mission statement should have effectiveness dimension in addition to economic dimensions. These factors and dimensions should clearly be identified by MNCs on which may depend the very prosperity and existence of a company. In fact a multinational creates a geographical dispersion of corporate resources and operations through people who are exclusively located at the headquarters in the home country but also through people in the home country. Hence for the purpose of unifying a company into one fabric, a mission statement taking all possible factors into account must be evolved.

COMPANY PHILOSOPHY, IMAGE, AND SELF-CONCEPT

During to rapid changes that have engulfed industrial and business environment today, every organisation would like to define its corporate philosophy. In a domestic market, understanding of environment leads to almost uniform corporate values and behaviour. The philosophy may be unwritten, still people understand the same. Multinationalisation brings about a change in environment and the related corporate values. This is because a company would then face many variants emerging from plurality of cultures, behaviours, business environments of different countries, etc. A company will have to take strategic decisions regarding prioritising its vision and decide which philosophy has to be given top priority considering multiplicity of various factors of environment. It may be practically impossible for a company to define an overarching philosophy which would be equally welcomed in both host country as well as home country. It is pertinent for each of the subsidiaries to verify that the company philosophy is not clashing head-on with prevalent social norms. Due to fast communication in the present world it may not be possible for companies to insulate their basic philosphies in different countries, although they can be tailored to suit the environment of individual nations. This is required to be done keeping in view the conflicts amongst major groups in a country and the capabilities of these individual groups. The corporations thus significantly enlarge their conscience towards the specific behaviour of environment and adapt for their own trouble free survival. The mission statement must therefore reflect these attitudes of a company to develop basis for strategic decisions and for day-to-day operations. The self concept of a multinational goes to build up a company philosophy. A company studies environment with regard to its own strengths and weaknesses in each of the operating regimes. The agility to survive in a multiple, dynamic and competitive environment gets substantially jeopardised if strategic decision makers do not understand various forces, their interaction and impact on company, and design strategies accordingly to cater to the complexities. In fact a company has to develop a fast responsiveness to changing environment which is scanned and analysed by strategy managers.

Various activities through which managers may be proactive to environmental changes can be summarised as follows:

1. Defining strategies and modifying them to attain a position of leadership in services, product designs, marketing, technology, etc.
2. Designing a foolproof marketing and distribution network to increase speed of operations.
3. Studying and analysing key environmental dimensions that lead to fruitful coalitions.
4. Making joint venture for evaluating the impact of political processes on environment.
5. Identifying processes affecting business environment in the host country.

The reactive and proactive actions that may be required for strategic decisions should be clearly identified with the above philosophy and a self-concept of organisations developed. A public image which is used as a marketing tool and which is clearly related to acceptance of firm in market and its products also attracts the buyers. Dimension of public image is quite critical and should be well considered between employees and customers. A company should help to solve the social problems faced by employees and the society at large through its actions which would naturally be based on strategic decision-making processes.

QUESTIONS

1. What are the strategic considerations for a multinational company?
2. Discuss evolution of MNCs.
3. What are the causes for internationalisation of business?
4. What are various considerations in internationalisation of companies?
5. What are the various factors that an MNC considers while formulating business strategies?
6. Discuss various dimensions of a multinational environment.
7. What are the various conflicts that an MNC faces?
8. What are the various characteristics of an MNC?
9. What are the challenges faced by an MNC?
10. What is the difference between a multicountry and global strategy? Discuss various strategy options in both cases.
11. What do you understand by corporate mission of an MNC?
12. What do you understand by strategic alliances and strategic intent? Discuss in brief.
13. What do you understand by company philosophy, image and self concept? Discuss in brief.

CHAPTER

7

Forecasting The Business Environment

NEED FOR FORECASTING

Today, changes are rapid and too frequent and in a way quite necessary for overall growth of economy. There have been quantum changes from 1970 onwards and today in the business world anything that is consistent is only change. In the times to come when changes would be predatory, it would be crucial for managers to invent new ways of surviving in the ever-changing business environment. They would have to build up the capacity of a firm to face the onslaught of changes by being more agile and flexible for adapting themselves to changes. They would have to find out new ways of creating opportunities of profitability and growth. New rules of business will have to be written to meet ever-increasing expectations of drivers of business. To be prepared for such on going eventualities, managers will have to prepare themselves for really understanding the remote and the immediate environments of business and mechanisms of changes that affect their industry.

The changes have not only affected smaller companies but also the giants of various industries. In fact the organisational models that are available with us today for giant companies prove as their handicap in their process of adaptation due to their large inertia and consequent slower response towards changes in environment. Hence there is an urgent need for companies to shed-off extra inertia and develop agility (Refer Exhibit 7.1) since these large corporations will also be involved in the transition process. The situation that the automobile industry is facing today is due to incorrect business environment forecasting for which many giants are paying a price through under-utilised manufacturing capacity, piling-up of inventories and the locked up capital and operating cash. Companies operating in the home market saw a penetration by foreign competitors and used all the possible tactics of various elements like price, service, technology, and used them as levers for competitiveness.

EXHIBIT 7.1 Agility and Flexibility-Competitive Strategies

Agility cannot be merely seen as a performance issue in today's business context. It can be used as a key competitive strategy in environments where business situations are unpredictable and companies are under pressure to respond to the changes by creating suitable capabilities. The flexibility includes basically four dimensions of volume, product, mix and delivery, and agility being a step ahead of flexibility also implies that flexibility in the volume, product, mix and delivery, coupled with low costs, high quality, better services and more reliability and dependability.

While forecasting does not promise flexibility, it enhances the capability of reacting faster at low costs as one can be proactive. One should also to accumulate, process, and use data for effective designs, keeping in view the agility dimension.

Source: Based on Interview of Stag Arne Mattsson, *Business Today,* September 22, 1998.

A similar situation was faced by the auto industry in the U.S. when the industry saw about 20 per cent penetration of the U.S. car market by foreign competitors coupled with oil embargo and prices of fuels rising by leaps and bounds. The Japanese did a pioneering work in market research and grabbed the market share at the cost of Detroit.

In service and consumer goods industry, the expectations of customers are sky-rocketing, and there are companies who accept the challenge of designing products and services to meet customer's need to their delight. Everyday, a new product concept is born, making the existing product, system or service obsolete. The obsolescence has become very fast. The process of obsolescence is faster in some industries compared to others and particularly in the field of computers, electronics, information technology, etc. It is so fast that when a customer is in the process of buying some of the gadgets he would be buying something which is already obsolete.

Changes have affected the very nature of enterprises, role, and relationships of business, measurements, architectural platform of business, and the effects have lead to tremendous changes, making it mandatory for business to do introspection and be prepared to accept them instead of brooding over them.

A CEO today faces challenges of recalibrating various strategies, plans, agenda, and causes of actions to be able to navigate in rough weather of competition and unprecedented changes (Refer Exhibit 7.2). Dynamics of business has forced managers to have an appropriate application strategy and a suitable architectural strategy to successfully survive. Traditionally, organisations had information systems built around the information flow between the various subunits of an organisation. With changes in structures due to changes in speed of operations, information systems will have to be changed.

Exhibit 7.2 The 5 F Concept

The CEO of Aptech, the premier computer training institute in an interview elaborated that their company follows 5F concept, which has been very effective. The employees are fast and focussed. The working is flexible and atmosphere friendly with 360 degree feedback concept.

Source: Based on Interview given to Sunita John, *Business Standard,* February 19, 1999.

To simplify understanding of strategic management and to provide a planning tool, an organisation has to ask simple questions about its business. The generic question can be

i. What business is being done by the organisation?
ii. What forces (positive and negative) and what critical success factors are present?
iii. What strategies the company has?
iv. What forces are changing the business environment?
v. What business is likely to be in?

The abilities of companies to correctly anticipate possible market dynamics and initiate appropriate actions before a competitor does is called as competitive advantage. Market dynamics gets affected by some of the important business drivers that can be listed as follows:

i. Employees who want the best compensation and security of job.
ii. Stockholders who look for growth and money at varying degrees of risks.
iii. Banks and other lenders who want utmost integrity.
iv. Regulators who insist on conformance.
v. Customers who seek good quality at lower price coupled with prompt delivery of products, quickest, and best possible services.
vi. Competitors who strive for their market share and conformance to business ethics and code of conduct.
vii. Suppliers who look for orders and timely payments.
viii. Governments who make policies, issue licenses, permits etc.
ix. Political parties who demand a price for trouble free operating of companies.

STEPS IN FORECASTING

Organisations must gear themselves to be able to forecast business environment and make strategies accordingly for being successful. Accurate forecasting of the constantly changing components of an environment is a vital part of strategic management.

Following steps are necessary to be taken by a strategic manager.

i. Scan and select relevant and significant factors from environment that are critical to a company.

ii. Identify sources that would provide significant information about the behaviour of environment, its composition, responsiveness etc.

iii. Examine and evaluate alternative approaches or techniques for forecasting that may yield useful results.

iv. Imbibe results of the forecast in strategic action programs through strategic management process.

v. Effectively manage the forecasts and forecasting process and identify critical aspects of the forecasting process.

Step1: Selection of Critical Environment Variables

Changes are affecting the world. The future is looking at sharing the unlimited resources more equitably to the advantage of all human beings. We know that presently the majority of human kind is barred from benefits that are available to the first world, however, the third world is soon catching up with it.

Today, the numbers have become far more important in the entire decision process and the growing number of people in the third world may therefore dominate the political and economic developments of the globe. The first world has been constantly ignoring the strengths of the third world and they did not even have a policy for them until recently when EU had to announce the same.

It is estimated that the population of the world will grow to about 10 billions by 2025. In the essay on principle of population, published by Thomas Malthus, it is stated that starvation will soon sweep the world (2030) and we find that the latest projections on population growth have been alarming. Although the world wide rate of population growth has been falling, in poor societies there has been a good reason for having more children. The children are considered as assets who can do useful work and provide security in their old age. Out of many children who are born few survive, hence, more children become necessary.

Food, one of the important resources, is becoming scarce on this planet. The green revolutions have not turned out to be so green due to errosion of soil and reduction in diversity due to monoculture. In future, one may hope that food may be mass-produced in factories, with genetically engineered cells grown in artificial lands making use of the sea that remarkably remains unused for this purpose. The population, which is connected to every problem, including that of food, has been a cause of turbulent business situation and also for creating new business avenues. It affects economic, social, technological, regulatory, and political environment.

Earlier, population had lesser impact, however, due to its erratic, radical, and contradictory growth patterns in the second half of the country, it has created a revolution in the business world. The growth in population is leading to competition for jobs, education, promotion, housing, food, etc. compounded with awakening of women and other racial minorities about their rights. The problems get further multiplied when they do not retire and refuse to give up status, power, employment etc. as is evident in politics and jobs of government. They affect the consumption patterns, life styles, decisions, and eventually the business opportunities. In case the growing population has the purchasing power, new markets will bloom to satisfy their needs. The economic interpretations of population growth are complex, requiring strategy and changes in trends due to migration, mobility, birth, marriage, and death which will in turn further complicate the situation. The changes in political, technological and cultural environment are triggered due to these changes and to make an assessment of the total changes becomes increasingly difficult.

In addition to the population, various other factors related to this aspect can be the form of government. The democracy that believes that people are the markets, is found to lose its meaning and what we have today is demogogy. The caste, creed, religion, and beliefs have shadowed the function of governance. The rule of minorities has come in the forefront. Thousands of minorities have become aware of their rights and want to play an active role in power. The transition is quite painful and costly, yet it is inevitable. There is a fight between people who cynically want to occupy seats of power. Representation of more and more people in governance will become imminent in near the future. Thus new models of democracy, which are also being explored by communist countries will emerge.

The strategy managers must develop sensitivity to recognise the critical aspects of these and additional dimensions to be able to appreciate their impact on strategies for the future of their companies for survival and growth.

Step 2: Who Should Select the Significant Variables

It is the duty of the top management to develop vision of the key factors that could affect a business in long run. This vision is developed on the basis of studies, surveys, incubation, thinking, and analysing various events and the related data that is compiled by executives and groups of executives specifically assigned to this particular job. In a typical company, the General Manager of long-range planning department at corporate level may collect all the data on political, economic, social, and technological environment and continuously benchmark his own organisation with competitors. The person at the corporate office may not have access to all the data of the multitudes of products of his company and his exposure may be quite limited. In such cases, product managers may assist in providing the necessary data for analysis and presentation to top management. In some cases, consultants may also be appointed for studying and analysing the data. Company task forces may also be created for collection and analysis of some specific data, which may be relevant for taking some urgent decisions. In fact, the key issues in environment forecast may be related to economy, society, politics, technology, industry, competition, customer profiles, suppliers, and creditors and human resources etc., and experts in each of these fields may be deployed by a company to identify the significant variables that would affect the strategies of a company; however, significance of each of the variables will have to be decided by top management who has to take decisions on strategies.

Step 3: Selection of Variables

Once the list of key variables is prepared, it is vital to examine these variables that would affect the future of a company. Some of the variables may be very important for the present and the other would have been important for the past. There would be some variables important for the future of the organisation, and these are to be clearly listed out. The variables are usually in great numbers and hence, to comprehend, a list of dependent and independent variables must be prepared. These different variables would have different weightage factors and a distinct correction with objectives of the company. Some variables would be crucial whereas some variables may not be so crucial to the strategic directions of growth. The following guidelines would help to reduce the number of variables.

i. The variables with very high, moderate, and low probability are to be ranked. The ranking may also be done with maximum, moderate and minimum impact. It would be wise to exclude variables with very low probability and low impact.
ii. Any major event, which might have happened may be once in a life time, may be ignored and not accounted for forecasting environment.
iii. The dependent variables, may be separated out and a tree created to account for dependency.
iv. Different variables may be clubbed if required for analysis purposes.

It may be quite difficult for strategy managers to for all possible variables due to limitations of cost and time and hence only those variables that are important, may be considered in analysing business environment. Variables, that are responsible for a steep rise or decline in performance need the attention of top management. It is pertinent to relate variables with time also. A variable may be quite insignificant during some periods of time, whereas at other times it may assume greater significance due to change in climate, policy, strategy of competitor, strategy of company itself, etc.

Step 4: Information Gathering

We all know that the quality of information is very important for taking meaningful decisions. The quality of information largely depends on sources of information. Quality of information is defined by its form, correctness, accuracy, and timeliness etc. Collection of information from various sources has to be done very intelligently and one should not be casual about it. This aspect of information gathering has to be clearly understood by all concerned in an organisation and the management must educate them on this aspect. It is also essential to see that information is not biased and is based on facts. No doubt that a lot of information is available from business journals, however, it is essential to generate additional relevant information through surveys. The strategy managers may also take the help of consultants who specialise in information gathering.

Information and communication are important aspects of strategic management in any company. In fact all the administrative systems are information-based and operate through information driven mechanisms and most of the managerial time and energy is spent in processing this massive and dissimilar information, and creating significant communication with interested parties, external, and internal to the firm.

Hence the term communication means a more sophisticated and elaborate managerial activity, which is responsible for creating meaningful relationships at all organisational levels and at the level of stakeholders. The system involves gathering, processing, and evaluating large volumes of data. The information needs to be filtered, diagonised, and discriminated for it to be able to get assimilated.

The Japanese place great emphasis on information specialists, information integrators, and information processors and users. The information management systems are of basic importance for them for succeeding and surviving. The information integration approach is viewed as a proactive, preventive function rather than being reactive, after the fact. The non-specialised career paths have emerged as a consequence of an approach that does not allow formation of specialised information-based islands. The basic skills of information integrator are.

- A good knowledge of business and its processes.
- Creativity to use information in strategies.
- Project management skills.
- Leadership and political skills.
- Ability to gain confidence of diverse groups.
- Knowledge of communication systems and information technology.

FORECASTING TECHNIQUES

There are basically two approaches to strategic forecasting. One approach is based on quantitative model whereas the other is qualitative in nature. The quantitative approach appears to be more convincing, however, in actual practice the intuitive or qualitative model is found to have more acceptability, and results obtained by this model have been found to give practical solutions. In the immediate environmental analysis, quantitative techniques may be easy to be adopted; however, in remote environment analysis, qualitative techniques can be easily used for analysing legal, political, economic, and technological and social environments.

The choice of techniques is dependent on various factor such as:

i. Nature of decision
ii. Accuracy of available information
iii. Cost of information and its analysis
iv. Required time to arrive at meaningful conclusions
v. Capability of forecasters
vi. Availability of previous experience data etc.

Economic Forecasts

Today, it has increasingly become important to address the environmental trends and anticipate possible surprises. Behaviour of competitors has become very important as any change introduced by them in their products, policies, strategies etc. may substantially affect business of other companies operating in the same environment. A deep and thorough knowledge of structural dynamics of industry has become vital, and significant knowledge of competitor's actions can lead to high quality strategic thinking. The value creation capabilities of a firm is reflected in its market value, which is the stream of cash generated through time. The economic evaluation of these cash, flows is done through computation of Net Present Value (NPV) discounted at the corresponding cost of capital. Usually, the forecast based on the economic factors are related to remote dimensions such as economic condition, inflation, currency parity, currency transfers, wage levels, raw material costs, consumer price index etc. The economic conditions also get altered due to wars, famines, and other natural calamities. Economic forecasts based on some of these and additional factors serve as a basis for forecasts. Some of the additional factors may be sales, market shares, growth rates of population, wages and price indices etc. and economic condition in general.

Economic Models

Today, computers are being heavily relied on to make decisions. An intriguing application of computer is to model the decision-maker. These models have been found to be very useful in different analysis and have delivered surprising results. The models have provided more insight to the problems by bringing out the relevant factors to the forefront and also their weightages for arriving at decisions. For preparing such models, a decision support system is required to be built. Other systems that are required to be built and operationalised are decision insight systems, expert systems, artificial intelligence etc.

Various economic models were developed by private companies to make the decision-making process mechanised. In these models, complex simultaneous regression analysis technique is used to account for economic events of significance that take place in the corporate sector. The method is found to be extremely useful when large changes are expected; however, a lot of intuitional support is required for interpreting the results.

During 1970s, econometrics became one of the fastest growing fields and three associated functions Data Resources, Chase Econometric, and Wharton Econometric Forecasting emerged. However, the changes have been so rapid that econometric models also failed to serve the purpose. One of the major drawbacks of these models is that they heavily rest on judgement of the model builder.

Time series models and judgemental models are the other alternatives often used. In time series, a curve is fitted into historic trends and the future is forecast on the basis of seasonal and cyclical changes. The technique is simple, accurate and has proved to be beneficial to the planner.

Trend analysis is an extension of time series analysis, wherein the future is projected on the basis of past trends. This requires past data to be made available. Past data required in trend analysis is analysed to develop a connectivity of trends and explore the reasons of past trends. This analysis can be carried out for the knowledge of trends of any of the significant factors viz. turnover, market share, price trends, growth rates, rejection rates etc. It is beneficial to use longtime trends as a basis for future projections rather than relying on short-term variations. It must be well understood that trend analysis extends the past data to project the future and any sudden changes in the trend would definitely upset the trends.

Judgemental models can be used where time series analysis and trend analysis are not possible due to the absence of any past record. The analysis consists of a typical force field analysis of critical possible factors and weightage factors for each of the forces causing the change and decision is taken based on the opinion of line managers. The salesman, for instance, can be used to generate data on customer preferences for specific products and services and similarly experience of production manager and designer can be utilised to decide on weightage factors. The result of the analysis depends on the feedback given by customers and hence it must be ensured that the response of customers is correct and balanced. Customer surveys may be conducted using phones, door-to-door contact technique, personal interview etc. These surveys give indepth information on customer behaviour, uncover their specific wants and needs, and their preferences. The customers usually look for:

i. Primary performance
ii. Secondary features
iii. Reliability
iv. Durability
v. Ergonomics
vi. Aesthetics
vii. Perceived overall quality.

A customer can be contacted during the following activities:

i. Personal selling
ii. Advertisement
iii. After sales service
iv. Invoicing
v. Technical advice on product.
vi. Order placement
vii. Progress of order processing
viii. Credit realisation
ix. Customer complaint

There are basically six broad categories wherein market research can be carried out:

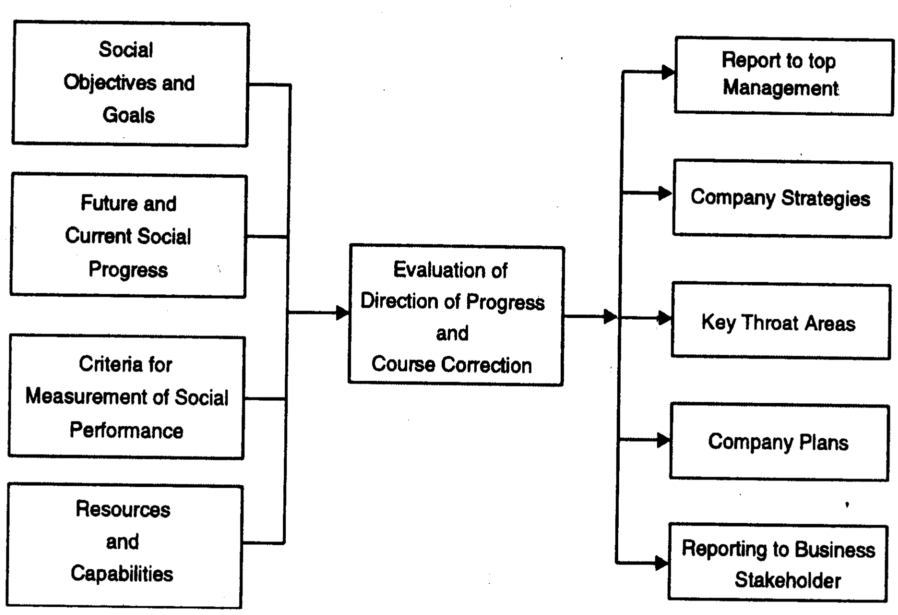
- Analysis of life styles
- Watching the customer moves

- Testing of concept
- Buying motive trend analysis
- Perceived use value analysis
- Analysis of competitor's products and services

Social Audit and Forecast

Social audit is a systematic assessment of meaningful and definable factors which underline the domains of a company's activities that make a social impact. It is a form of measurement. The social audits can be largely conducted by the company through measurement of its performance in terms of its social indicators against the pertinent macro social indicators. The macro social indicators are the measures of a company performance in meeting the needs of society, such as health, safety, education, housing etc. The corporate audit consists of indepth factual analysis of performance of the chosen companies or industries, with regard to some specific areas of social concerns. The corporate constituency group attitude analysis consists of measuring the extent of pressures that the groups of people exert on companies in achieving their own goals (Refer Exhibit 7.3).

Exhibit 7.3 Social Audit



Based on the above audits, companies can conduct a comprehensive analysis of social trends and the underlying attitudes that have profound impact on the performance of the company. Several approaches can be used for these forecasts, including time series analysis and judgemental techniques. The scenario development technique is also used, wherein a future scenario is stipulated, based on strategies of a company.

We know that social changes do not occur overnight and one cannot specifically predict when environmental changes will occur and will create an impact on corporate strategies. Some of the primary fields, wherein social changes can affect company strategies can be summarised as follows:

i. Demographic characteristics
ii. Rate of growth of urbanisation and its impact on social values
iii. Speed of education and literacy
iv. Distribution patterns of incomes
v. Changes in ethical values and perception
vi. Health and average life span
vii. Expectation from businesses

Political Forecasts

It is quite difficult to draw a clear line among various factors that we have discussed. Most of these overlap. What may appear to be an economic reason may be actually political or technological in nature. This is of not much significance till the strategy manager is able to understand these factors and is able to estimate impact of these on corporate strategy. The semantical classification may not be very accurate, however, study of complexities of mechanisms of these changes and their effect on strategies is to be clearly understood and accordingly forecasts prepared.

Political environment for a democratic country like India begins with its constitution; however, whatever is written may not be directly applicable to businesses. As a strategy manager, one would be more interested in various provisions made by the government. The functionaries of political systems take certain actions within the basic framework of constitution, the which are more important to be understood by a strategist.

We know that the economy of a country largely depends on the politics and political system it has embraced and the shift in political factors like size of government, number of political parties and variations in their ideologies, plans, budgets, defense spending, tariffs etc. These and many such factors related to economic policies have a profound impact on various businesses. In present days, the political environment of a country gets affected by the political climate of its neighbouring countries and also due to political situation of super powers. Some companies who depend for resources from other countries where a crisis exists are thrown in turmoil due to decisions taken by the government. Due to strained relationships between Pakistan and India, sugar import from Pakistan after being continued for some time, was banned in light of Kargil war. Dependence of companies on foreign customers may also be threatened due to change in legislation brought about by political groups of that country. Readers may remember the case of nylon skirts being exported to USA and due to invoking of laws on flammability of nylon material, goods worth crores of rupees were forced to be withdrawn. The interdependence of countries makes it imperative for them to consider international political scenario for carrying out their business. A number of methods and approaches have been developed to forecast the international political environment and some of these are as follows:

i. Monitoring of economic indices in different countries of interest against political variables.
ii. Study of critical political catastrophes in various countries of interest and development of situational models, which caused these for forecasting the future.
iii. Study of changes in political trends, political swings, voting pattern etc. to predict formation of government of political parties with specific programs.
iv. Study of developments in a country or a group of countries assessed on a scale of selected factors like social development, technological rate of growth, natural resources, domestic tranquility, political system, natural calamities, agenda for prime concern of government etc.
v. Critical study and evaluation of political manifestoes of various parties and their rate of accomplishment, public image, etc. to forecast the future possibilities.

With the study of the above and other relevant factors, it is possible to forecast major changes that may take place in a country. Today, many companies in the world are carrying out forecasting of political situations and some are even proactive in controlling the political situation in a country. They invest money in a country of interest to bring favourable political parties to power. USA has been often accused by third world countries of engineering politics of their countries for its own benefits.

Technological Forecasts

Technology has far-reaching effects on business. Technological developments are at the fastest rate today and affecting businesses in many countries. Technology, directly or indirectly affects all kinds of macro and micro environments. The advancements in the field of electronics has miniaturised the world. The advent of computers has changed the meaning of work and market place. The most stable industries like food and textiles are getting grossly effected due to technological innovations and at still faster pace today. It is speculated that in the near future we would see many more inventions and innovations and even a more fast pace of technological developments. The old methods used by doctors of studying the symptoms and treating patients is no more acceptable. Surgeries have become more microscopic. Human beings are being replaced by robots to do repetitive jobs and work in an environment, which is hazardous. New methods of storing energy have been found out. Hybrid seeds and seedless varieties of fruits and vegetables have been developed. The major areas of technological advances possibility would be in the following areas in future:

i. Transportation
ii. Energy usage and production
iii. Extend and control life
iv. Development of more eco-friendly materials
v. New technologies in food production, cultivation on sea, etc.

vi. Extension of sensory capabilities of man.
vii. Mechanisation of physical and intellectual processes

The technology mission of the Government of India highlights the following basic areas of focus:

i. Promoting Literacy
ii. Child immunisation
iii. Increased oil seed production
iv. Linking remote areas through telecommunication

In the world scenario, newer developments like lasers, nuclear energy, satellites, desalination of water, electric cars, miracle drugs, newer ways of entertainment, missiles etc. have made it imperative for companies to invest in technological forecasts. The probable technological development is necessary to be known for strategy managers to be entrepreneurial rather than being reactive. This would require development of risk-taking capabilities and plugging failures due to many forces present in the environment ready to make them extinct.

For predicting technological environment some of the following categories should be kept in focus:

i. Form of product groups
ii. Processing technology
iii. Form of raw materials
iv. Developments in unrelated areas with regard to an industry
v. Record of inventions, innovations, diffusion of technologies, collaborations, technology transfers, major research and developmental projects.

One of the important techniques, which can be used for forecasting is brainstorming for various new ideas. During brainstorming, new ideas are generated in a group. Gordon technique, attribute listing, checklists, morphological analysis techniques are some of the other techniques used to tap the creative potential of people. The group members are encouraged to give wild ideas and freewheeling is permitted in the group. The group builds over an idea with new ideas. The promising ideas are selected through evaluation technique.

The Delphi method is also used for a systematic analysis and drawing a consensus from participating experts. The Following steps are usually followed:

i. Survey of expert opinion is carried out.
ii. Anonymous evaluation of ideas by experts is conducted.
iii. Effort is made to achieve convergence among the experts through revision.

STRATEGIC MANAGEMENT PROCESS

The forecasts made become a significant part of strategic management process. The information generated can be fruitfully used by strategy managers in the process of evolving strategies keeping in view the vision of the company.

It is important that the various assumptions made in the forecasting environment be clearly understood and appreciated. The results of forecasts should always be seen in light of various assumptions made to develop more clarity. If these assumptions are not taken care of properly, companies working out strategies and following them may even run the risk of a closure.

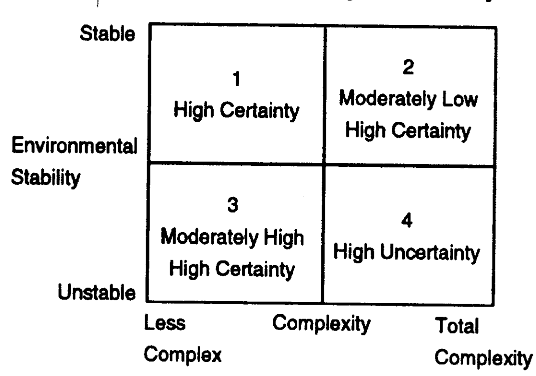
The forecasts open avenues for development. The gaps that emerge due to study of forecasts can be planned to be filled up through research of causes of these gaps, exploring various profitable and workable ways to fill them and making an effort in filling them up. Companies may even change their vision and mission statements and may like to alter their strategies for growth and survival in view of research made. The forecasts should be able to present likely gaps in various factors that would hinder a company achieve its desired position and grow from the present position.

The forecasts are usually not one hundred per cent correct. There always exists an elements of uncertainty. Also, the analysis is not very objective as it is done with several assumptions, hence the element of uncertainty prevails in the forecasts. The objective of the strategist is to reduce this uncertainty to a minimum. The uncertainties can be reduced to a large extent by gathering correct information from the right source. It is necessary for a strategist to have intuitive capabilities through which he must be able to understand relationships among weaknesses, threats, opportunities and strengths pertaining to a company and formulate strategies accordingly. Sensitivity towards trends, data, events etc. reflected from the environment must be developed by a strategist to gauge their real impacts on a firm (Refer Exhibit 7.4).

Of all the forecast factors, there would be some factors, which would require top priority attention; however, there would be dimensions, which may not require immediate attention. Similarly, some of the factors may be critical for the success of a company, whereas others may not be as important.

A ranking of these factors and dimensions may be done to arrive at the most critical or important factors and systems devised to measure their trends.

Exhibit 7.4 Impact of Stability and Complexity



MANAGING THE FORECASTS

To effectively manage the forecasts, it is vital to look into some critical aspects of forecasting, which is discussed below.

There may be a very vast spectrum of various data that might be available or which could be generated; however, all of it may not be significant in the context of an industry or a company. There are factors, which are remotely connected and some of these may have direct impact on the environment related to the company. Some of the data is of immediate concern, like market share, sales volume, profits, competitors and their profile etc., whereas some of the data may be connected with remote causes. It is therefore necessary that a collective perception of required trends and data is necessary.

The munificence of an organisation's environment means the level of resources available to the organisation. These may be plentiful or scarce. A rich environment attracts competitors, thus making the environment lean. Monitoring of this aspect of environment for forecasting is necessary to be done as it may at times become critical for a company.

Dynamism refers to the degree and rate of turnover in environmental factors. When the rate and degree of turnover is low, the environment is stable and vice-versa. The fashion industry usually operates in an unstable environment. Stable environment allows usage of routine ways and reduces mistakes. Under an unstable environment, fast adaptation is necessary for survival. This is quite true for seasonal businesses like sports, food, publishing, and printing etc.

The complexity refers to the degree of similarity or diversity among various factors in the environment of an organisation. Environment is said to be homogeneous when similarities are more, otherwise it is referred to as heterogeneous environment. Homogeneous environment leads to specialisations and simplified operations along with stiffness in operations. Heterogeneous environment, demands multiskills, job rotations, diverse knowledge etc. Hospitals and hotels operate on heterogeneous environment whereas a typical research laboratory or a design office operates on homogeneous environment. Due to the fast pace of changes that are being witnessed today, it is being increasingly realised that most of the business environments today are gradually becoming more heterogeneous.

The concentration or dispersion of various factors over the environment is important for adopting methods for forecasting. Concentration of factors reduce costs of travelling to forecast them. As the dispersion increases, cost of collecting data may also grow up. When factors are concentrated it leads to concentration of business activity as well, as we see in case of the most metropolitans.

The environment is sometimes turbulent whereas at other times it is calm. The turbulence is caused due to stimulus resulting from interconnections. When interconnections increase, any change in the remote environment may also cause turbulence in the local business centers. Today change in prices throw the world market into turbulence and so is the case due to threat of war, instability in a region etc.

Concensus refers to recognition or dispute over specific domain of a company. Some companies exist by their name as specialising in some specific areas. In an environment where competition exists, the competing firms identify that a consensus exists that a recognised number of competitors are in the fray. The domain is switched over through differentiation, innovation etc.

The above factors, which lead to uncertainties, pose a challenge forecasting. The uncertainties can be,

i. Uncertainty of correct information
ii. Uncertainty of correct source
iii. Uncertainty of effect and cause mechanisms
iv. Uncertainty due to obsolete data (which becomes obsolete very fast)
v. Uncertainty due to assumed probabilities

To conduct forecasts, availability of reputed and cost-effective source may become a constraint. The strategy managers should organise to get accurate data at low costs from state and central governments, trade and industry associations, consultants, researchers etc.

Some companies wish to conduct forecasting by using inhouse facilities, due to causes of accuracy of analysis, quality of forecasts, and paucity of time etc., however, people must be specially trained in forecasting methods, data acquisition techniques, analysis methods etc. With accumulation of experience, the companies can do forecasting themselves. In the process they would also learn about the weaknesses and strengths of various forecasting techniques.

QUESTIONS

1. What is the need for forecasting business environment of companies?
2. What are the various steps in forecasting a business environment?
3. What are the various techniques of business environment forecasting and on what factors are there techniques dependent?
4. How is strategic manage process related to forecasting?
5. How in your opinion should a strategy manager manage the forecasts?
6. What are the uncertainties in forecasting and how do they affect strategies?

CHAPTER

8

INTERNAL ANALYSIS OF COMPANY PROFILE

The basis of formulation of result-oriented strategies is clear definition of the mission of business, which is well understood at all levels of business, an accurate analysis of the external environment through study of significant factors, study and analysis of the internal environment of a company. This is so because an entire organisation must focus on moving towards business excellence and the true meaning of this, translated in the business mission statement. Understanding the purpose of business, strategies evolved to accomplish the challenges and opportunities posed by the competitive environment through building of inherent strength, and an analysis of the internal environment to take realistic steps to integrate people, systems, facilities etc. for survival and growth is the major task and challenge management faces. Companies pursue opportunities or create new opportunities based on their key internal strengths that develop over a period of time in any organisation. Various key internal strengths in a company can also be developed by imparting training to the people in the organisation. However, as the companies mature they go on adding to their strenghs over a period of time. Some companies provide specialised training on the execution part of strategies and task forces are formed and trained on various aspects of implementation of strategies. In order to decide which are the various areas requiring training inputs it is vital to carry out internal assessment of the company. Internal analysis of a company is very crucial although it is very complex and challenging. The complexity is because of the involvement of trade off analysis, value judgements and guesses that are essentially to be made. Coupled with this are the challenges posed by objectives and vision of a company that are to be transformed into a reality. Data base of a company may be collected and analysed to substantiate the judgements and arguments, and explanations for behaviour of data in a certain fashion may be given. The complexity is multiplied due to opinions that pour in from every corner of an organisation, however, an objective evaluation of internal analysis of a company is necessary for evolving effective strategies. Objectivity in analysis is imbibed by correctness of data, which must be generated from the right source. In a company, data on strategies was collected and the members who filled up the forms belonged to the group which was about to leave the company within a few months. Obviously the survey did not reflect the representative group of the company and the CEO of the company did not accept the data as being correct. Another survey, which was conducted immediately afterwards showed entirely different trends. Hence it is vital that the data collection should be done with utmost care and reasons for significant variations checked and rechecked before taking decisions.

The purpose of internal analysis of a company is to draw a profile of its strengths and weaknesses. This profile forms a base for the strategies that a company should adopt. The basic structure of analysis that is usually adopted is to study the organisation structure (authority and responsibility relationships), cash flow, work flow, communication, and the technology process through the defined organisation structure. It must be appreciated that the study of these processes is quite difficult particularly in large companies due to multiple functions, systems, rules, working instructions etc. There are many areas of repetitive tasks, overlapping functions and varying approaches, which make internal analysis tedious and unsystematic; however, it is recognised as an important step in strategic management.

SYSTEMATIC INTERNAL ASSESSMENT—A KEY TO DEVELOP COMPETENCE

Systematic internal assessment of a company is vital for it to effectively create opportunities and also use favourable opportunities in environment of a business. The benefits from opportunities can be maximised if a thorough analysis of company's strength and weaknesses is conducted vis-a-vis opportunities (Refer Exhibit 8.1).

Exhibit 8.1 Situations of Managerial Tasks

Changes necessary to infuse new strategy	Effective	Ineffective
Many	Selective Mix When changes required are many and existing executives show good performance then selective mix experience and new knowledge may be used.	Turnover When changes are many and existing executives are ineffective, outside managers are required to replace the existing managers to provide new experiences, enthusiasm, skill, etc.
Few	Stability When changes required are few and internal managers are effective, emphasis is generally on retaining the existing managers, reward them and develop their capability.	Re-orientation When changes required are few but existing managers are ineffective, then outsiders are required to replace the managers in key areas and competence from internal sources brought by protection redeployment, etc.

Past performance with regard to prevailing strategies

Systematic internal assessment is extremely important for small business also. Small firms often face problems of paucity of resources, cash crunch and market changes, however, these firms are quite flexible and agile and can adapt themselves quickly to the changing demands of the market. They can quickly gear themselves up to accomplish special requirements of markets. Due to paucity of resources and fluctuations in market, they have to make the best use of the limited resources and available opportunities to reap benefits. It is important for them to do consistent and objectively internal analysis of their company before taking a plunge.

DEVELOPMENT OF A COMPANY PROFILE

One of the purposes of internal analysis of a company is to develop its company profile. The company profile is a blue print of the company's strategic strengths and weaknesses. Evaluation of these factors in the light of strategic requirements of environment is necessary for any company for maintaining a definite strategic posture. Since organisational processes are complex, management experts have found various approaches to identify strategic internal factors, their origin, and evaluation.

Functional Approach

Functional approach consists of identifying the primary and various secondary functions of processes, activities, and events that take place in an organisation. Amongst the various factors that may be present in the environment, there would be only a few factors that would be favourable and would contribute to success. These factors will not only vary for each company but also for each industry. The factors that would be present in the food industry would be quite different from those present in the steel or garment industry.

Examination of past performance, various factors at working level, and strategic factors give a lot of clues for studying the internal contributors and also help in developing strategies to combat failures. Why did a firm perform so poorly in sales in spite of the fact that it had a good product or why did the market share of a product grow even when the marketing strategies were not so good are some of the key aspects of internal analysis. Answer to these questions uncover a lot of information about a company. Critical analysis of firms will show that some companies adopt vigorous advertising, whereas others may choose to go in for mass production and mass distribution as their strategies for pens, lighters, etc. without bothering much about well-known strategies of the pricing and quality, and some others may cater to a specific market segment maintaining quality and a definite price tag. Their focus is primarily on satisfying the requirements of middle income groups who very often buy these goods. Analysis of sales, costs, number of orders, speed of operations, number of rejections, delays, scrap generation etc. reveal many vital factors that have to be considered about a company. The factors must be picked up by fragmenting lines of production, design, marketing and sales etc. and questions like why, how, when, what else etc. should be put to analyse the functional chain.

In the functional approach, the analysis aims at identifying the function of each activity, system procedure, method etc. If the desired purpose or objective is not being served, then alternatives are to be evolved, which would serve the purpose. The evaluation, may be in various fields like distribution, technology, time of operation, quality, services, etc. This analysis brings forth the functions of each activity, like structure, event, policy decision etc. into focus. The analysis is done keeping in view the various strategic factors of competitors and evaluating the overall capability of a company.

Value-Chain Approach

The organisational processes can be considered as systematic integration of various business processes in different departments to create or add value. The value chains cross the functional boundaries of various departments and even boundries of companies. The value chains have an output-input relationship and which key internal factors significantly make this value chain operate by adding several folds of value is important for company. There may be operations, activities, events etc. which do not directly contribute to this value chain but they may be important for proper functioning of value chain. Creating or adding value incurs cost and one of the objective for maximising the benefit is to reduce cost. In order to reveal the costs going into a value chain cost modules are also developed. The strategically important activities performed by an efficient firm at lower costs and with higher speeds with regard to established and agreed bench mark is vital for a company.

While analysing the value-chains, departments are to be disregarded as they are essential entities of structures. The focus should be more on processes or activities like design, produce, markets, delivery, installation, commission etc. There are also primary activities that form part of the core of the value chain and that they are primary in nature can be known by developing models of processes without them. If such models reveal that business processes are rendered useless by dropping these activities, then it can be safely concluded that they are primary activities. The support or secondary activities in any organisation could be after-sales service, inspection, quality control, statistics etc. In the following paragraphs the primary and secondary activities have been further elaborated.

Input activities Activities pertaining to inputs to the process, that is, receiving, storing, distribution to each division, material handling, inventory control, scheduling and sending rejected goods to the supplier fall under this category. In any organisation there are several business processes and sub-processes, each having inputs and outputs where in output of one process becomes an input to some other process. Thus organisations have what we call internal customers. External customers usually come in contact with the commercial or marketing division and the requirements of external customers are passed on to various other divisions by the commercial or marketing department thus giving them inputs. These inputs are of vital nature and hence it is important that they should be clearly understood by those concerned.

Transformation processes Activities by virtue of which the inputs are transformed into outputs (value addition) fall under this category. These activities may be machining, grinding, welding, assembly, testing, packing, painting, concentrating, polishing, cutting, erecting, commissioning and so on. These are typically the processes that add value to raw materials. The examples given refer to only core processes while there are more processes also involved like planning, machine-loading, budgeting, deploying people etc. In addition, there are processes linked to administration, personnel, salaries, welfare, healthcare etc. which though secondary in nature are important for the effective functioning of the primary processes.

Output activities Activities that are associated with the output handling of the division, departments or firms, that is collecting the finished goods, storing and making the product reach consumers are covered under this category.

Marketing and selling activities The activities associated with understanding the customer requirements, advertising, sales promotion, quoting for products, distribution channel selection, pricing etc., fall under this category. These are the key activities for which an organisation exists and lead to a meaningful relationship with external customers.

Service Whenever a product reaches a consumer, he or she expects to get a prompt service as and when required. When a customer owns a product he pays a cost of owning that product but as time passes its ownership cost increases due to wear and tear, breakdowns become frequent, and the customer may expect some services by the company to keep the equipment in good running condition. There are several processes related to the service function and good service becomes a competitive factor for various companies.

Support activities These are basically to support the key activities. They usually do not directly contribute to competitive advantage, market share, sales volume etc.

Purchasing Under this category, activities pertaining to procurement of materials, services, machine tools, technology, design know how etc. are covered. Procurement of materials at the right time and place, of right quantity and quality, and from the right source are some of the important considerations. Business strategies with regard to these factors must be clearly specified to meet various challenges posed by the environment. These factors, in some way or the other, affect the value-chain in a company.

TECHNOLOGY DEVELOPMENT

Activities pertaining to creating new processes, product designs and services for improving effectiveness of the value-chain are considered in technology development. Technology development may not be done by a firm solely in its own laboratories. Outside help may be requisitioned. Collaboration agreements with market leaders in the field may also be made to acquire new technology. Help of well known institutes may be taken to develop new technologies for companies. Newer technologies are developed to increase the speed of operation, improve quality, cut down costs, and acquire a leading position in the business.

HUMAN RESOURCE DEVELOPMENT

Activities carried out for correct placement and development of individuals working in the company is termed as human resource development. It may be noted that all such activities take place across the boundaries of functional entities and encompass the total value-chain intra-structural activities. These include general management activities, that is accounting, finance, planning etc., which are essential to the value-chain but not necessarily farming a part of the value-chain.

INTERNAL ANALYSIS—VALUE CHAIN APPROACH

The value-chain concept can be used for internal analysis of an organisation's capabilities. The value-chain approach provides a systematic method of analysis and gives the blue print of a step-by-step approach. The distinct value-adding activities of a firm are identified along with the activities listed above, and key internal factors that may be source of core competency are identified. It is necessary to examine each activity and key internal factors with respect to bench marks in the industry to assess whether it is a strength or a weakness.

ORGANISATIONAL ADAPTATION

Organisational adaptation implies that the total organisation or part of it involves itself in activities that have a compatibility with the environment. In fact, managers are in constant search of alternatives, which would enable them to help organisations to adapt to situations, changes, and the environment etc. One of the ways of adaptation is making the technical core of an organisation shape up as per the latest trends and keep it protected from the onslaught of an external environment. Thomson named these strategies as coping strategies, which are designed to keep up with the environment. Environmental forces of change are sometimes so strong that they disrupt the on-going technical competence development, and coping strategies are designed to keep these insulated from the direct effects of environment.

Some of the basic strategies in this regard are as follows

Buffering Strategy

Buffers are for absorbing shocks. Environmental uncertainty leads to generation of many distrupting forces that tend to disturb the equilibrium of technical processes. On the input side, a company may decide to build up inventories such that market fluctuations do not hamper on-going works.

Restaurants, hospitals etc. fall into this category. On the output side, the goods can be piled up in the market and may be even dumped in order to avoid inventory-carrying costs. In this way each department of an organisation can use the buffering strategy. Nowadays, companies follow the concept of just in time and aim at reducing inventories to the lowest possible limits that are tending towards almost zero inventories.

Buffering involves high costs and therefore it is quite impractical for small companies; however some large companies have been practicing it as their strategy.

Smoothing

Whenever demands are in peak and supplies or means are scarce, the prices go up; however if prices are reduced during the low-demand period, the demand tends to rise thus smoothing the demand curve. This strategy has been intelligently used in phone services by reducing the rates after office hours.

Rationing

Rationing is a technique used for giving priority to the most sought after business alternative at the cost of the others. Rationing may be imposed by an organisation on use of paper, use of telephones, use of expensive consumables, vehicles, and touring etc., to control the costs.

Boundary Spanning

In boundary spanning organisations increase their boundaries and assume new roles so that they are able to positively influence the environment in their favour. The boundary spanners collect vital and pertinent information that may be useful to an organisation and equip the organisation to face challenges. Strategy managers often play the role of a spanner within and outside the organisation. They act as conduits for the organisation through which information exchange with the environment is made possible.

STRUCTURAL COMPLEXITY

The environment can be viewed as a whole consisting of segments and accordingly organisations can be fragmented into departments and functions to take care of the environmental uncertainty falling in their domain. The marketing department may cater to consumer needs, the finance department may look into economic considerations, the technology department may focus on changing spectrum of technologies etc. This helps in quicker adaptation; however, the complexity introduced due to structures brings in specialisation, leading to breakage of links among each of these functions, and thus the customers voice may be lost in the entire process.

MANAGERIAL SUCCESSION

Many organisations, owing to the presence of many senior management professionals at the middle level, are forced to create a team of young and energetic managers who can take up challenges with vitality and have additional specific skills to meet the challenges posed by the environment. These managers are trained in establishing link with key environmental dimensions and also manipulate the environmental domains that the organisation wishes to control.

NATURE OF INTERNAL ENVIRONMENT

The nature of internal environment is dependent on several factors. Some of the important factors are discussed below.

Organisational Aspects

Employees and physical facilities are the basic organisational resources that may be optimally deployed by a company to maximise its returns. There are several other resources, such as money, materials, systems etc., which must be effectively optimised for meeting the objectives set by a company. The cost of availability of resources may be different for different organisations. Non-optional use of resources may create other problems for organisations besides problems of lower productivity.

Behavioural Aspects

This implies the types of response that an organisation gives to external stimuli of change. Quality of leadership, philosophy of management, work culture, etc. affect organisational behaviour. Some organisations are adaptable while others are not; similarly, there are organisations that control their costs and focus on optimal use of resources. Some organisations value their customers more than others, while some companies may keep good service to their clients on their priority list.

Synergic Influences

In certain organisations, it is found that two strengths combine to give much-fold benefits than would have been available individually by each factor. Synergies may exist in companies in production and quality, quality and market, pricing and distribution etc. Some companies may synergise their functions effectively and reap the benefits, whereas others may be unable to do so.

Core Competencies

Some organisations have core competence, which is developed by them through careful planning and as a strategy for achieving a desired growth rate or to meet certain challenges posed by the external environment. Some of the core competencies can be product quality, innovative designs, speciality products and services, unique design features developed by R&D, low cost sources, trained man power etc. The unique capability of an organisation, which enables it to capitalise on specific opportunities through a distinctive competitive edge, gives the firm a distinct position in the market. Companies have to identify based on their objectives and strategies, the core competencies that they would like to develop.

Capability Factors

The capability of a company can be assessed based on various factors as discussed below. Capability of a company refers to its preparedness to successfully face any situation arising due to changes in its external or internal environment.

Financial capability There are various factors, which determine the financial capability of a company. The capital structure, cost of funds, financing patterns, capital investment, fixed assets, dividend distribution, accounting and budgeting system, working capital management etc. are some of the factors based on which internal assessment of two companies can be done.

Marketing capability Marketing capability of a company is assessed on the basis of several factors by which the company's strength can be estimated. Some of the important factors can be product mix, positioning of brand, packaging, pricing, variety, sales promotion, advertising, distribution, company image, marketing systems, etc.

Production and operations capability The ability of an organisation to use its production or operational capability in line with its strategies is vital. Various factors that relate to assessment of production or operational capability are capacity, location, layout, work system, automation, planning, availability of raw materials and components, inventory, production facilities, flexibility in changing production lines, layouts, facilities etc.

Capability of personnel The capability of employees in an organisation is evaluated based on various factors. An assessment of these factors is needed to measure internal environmental key factors of an organisation for meeting its objectives through defined strategies. Some of the important factors are trained manpower, manpower-planning, selection, compensation, retention of personnel, communication, quality of managers, union management relationships, collective-bargaining etc.

Management capability Management capability lies in organising in full the activities of an organisation. These may include coordination amongst various groups, planning for growth, designing various systems for meaningful information flow and control, that is, strategic management appraisal, billing and invoicing, corporate-planning, identifying risk propensity, orientation needs, values, norms, capacity to do work, keep records, maintaining relationship with the government, regulatory agencies, financial and public institutions, etc. and contribution to culture, change mechanism, structures, society, etc.

The capability of the organisation is evaluated based on a questioning technique wherein various questions related to finance, marketing, production, operations, general management is prepared and answers researched. The areas of weakness and strengths are decided based on bench-marking with the competitors for each of the factors. It is quite difficult to find out correct answers for questions raised in the company. For a competitor, however, persistent effort in this direction is required to make a complete assessment of internal key factors. Various other sources of information may have to be explored for getting the correct answers through dealers, distributors, customers, stockists, users etc.

Technology management capability Today, managing technology has become vital for companies. The technology spending ratio, that is the ratio between the amount of current investment in technology to the total investment and new technology to the existing technology ratio, which is an assessment of level of investment outlayed to innovative and sophisticated new processes as compared to replacement processes, has gained considerable importance. Similarly, the knowledge ratio, which is the ratio of number of knowledgeable workers, as a percentage of total workers has become vital for companies as high knowledge intensive companies are being born every day. The return on knowledge assets has become an important measuring tool for being a business leader.

For assessing the key internal factors of a company, these dimensions have become important and hence must be carefully measured. For assessing internal health of an organisation, the technology patent to stock price ratio, that is, number of patents divided by price of stock of company and research to development ratio, which is the ratio of money spent in each category of products, have to be measured. It must be remembered that no single technological achievement lasts forever as a competitive advantage. Creation of wealth is closely linked to knowledge of a Company, which a company imbibes by virtue of its systems, through employees. Companies carry out research themselves or by results of research on the latest technology, which yields to them better profitability.

EVALUATION OF KEY INTERNAL FACTORS

It is quite difficult to demarcate identification of factors and their evaluation. The basic philosophy behind identifying the key internal factors or core competencies is to study the spectrum of strength and weaknesses, which is basically a process of evaluating various factors.

Some of the symptoms that appear in companies are discussed below to give a glimse of their strengths and weaknesses.

(a) Exchange of a lot of information, redundancy of data, and re-entry of data shows that the natural business processes in a company have been fragmented, and the responsibility of carrying out the identified processes effectively, is not clearly fixed.

(b) Generation of inventories, buffers etc. signify that organisational systems are not quick to respond and cannot cater to uncertainties, or the structures are too rigid and the system too sluggish. A large volume of inventories also hint at poor coordination and insensitivity of people in organisation toward costs. Companies working with bigger inventories believe more in the following laid-down procedures rather than appreciating the reasons for which procedures were made.

(c) High level of control in the value-chain signifies presence of undue fragmentation of the business value-chain. If a company has too much of non-value adding man-hours, compared to the value adding man-hours, then it shows that the company has mistrust spread all over. Basically, control is a non-value creating activity, and most of the companies today are aiming at reducing the span of control.

(d) When there is a lot of re-work, it signifies lack of feedback along the value chains. Feedbacks provide a means of correction and if they are not given or well-received, then all the doors for improvement are closed. Companies usually have a system of analysing non-conformities, deviations, and concessions on performance in various factors like quality, late deliveries, rejections, high costs, etc.

(e) Due to many contingencies that may be present in the value-chain, the business processes become more complex as various elements get added to take care of contingencies. Thus, a process is created for taking care of all possible contingencies culminating in a less productive value-chain, stiff and complex processes, and sub-processes. A thorough analysis of the internal factors of an organisation may reveal a long list of issues and factors, but it may not be wise to concentrate on them all at once. The factors must be ranked, to help in formulation of strategies, keeping in focus the present opportunities that are available and the likely competitive environment that a company might face in the future. The potential strength and weaknesses must be determined keeping the vision of the company in focus and a realistic benchmarking done in relation to competitors.

The word strength has been used several times in the text. Let us understand this term in detail. The strength of a company signifies its distinct capacity, competency, competitive edge or advantage compared with its competitor in a given business situation or environment. This may be capacity addition, addition of a new and more versatile machine tool, or addition of a more competent manager who decides to introduce new systems, methods, layouts, etc. in order to enable the company achieve a coveted position in business.

The word weakness signifies the company's inability to work effectively and efficient, compared to its rivals. Strengths and weaknesses are relative terms. These are evaluated with reference to a competitor and hence depend on the business environment faced by company. What is considered a strength in the present situation may turn out to be a weakness in a changed business environment. In order to understand whether a factor is a strength or weakness, it is to be evaluated under different perspectives. These perspectives give a better understanding of the factor vis-a-vis the company's position in the competitive environment.

Assessment with Reference to Past Performance

Use of an experience curve is not new. Historical experiences have been skillfully used by strategy managers to evaluate key internal factors and categorise them as strength and weaknesses. This is also quite easy for managers as they become aware of capabilities and problems faced by the organisation they are working for. Various internal factors in production, marketing, selling, designing and so on are well known to working managers, and they can very easily assess the strengths and weaknesses.

Experience leads to blinkers on the vision of managers and provide a lot of security against the unknown, and hence there is a risk of developing tunnel vision. Using only historical experience for identifying strengths and weakness can be dangerous in situations where obsolescence is quick. Experience provides solutions to known problems, but if the problems and challenges are new it may be difficult to deal with them using known conventional methods. One may have to innovate and find newer ways of meeting the challenges.

Study of Product and Market Evolution Processes

Products and markets undergo changes over a period of time, and studying these patterns one can provide a framework for analysing a company's strengths and weaknesses. When a product is initially launched, its sales volume is usually low. As the sales picks up, a lot of customer feedback pours in and the product features undergo change. Rapid technological changes also contribute to changes in product design in terms of the value it offers to users and the market share of the company. As the market share grows, competition sets in. Brand loyalty, product image, effect of price on competition, cash flow patterns etc. can be important factors to assess the strengths and weaknesses of a company competing in the business environment. The growth rate of a product sometimes declines because of newer products, features, differentiation and competitive strategies of competitors etc. The focus shifts from R&D to efficient production, distribution, selling, etc. The financial controls, cost advantage, relationships with customers and suppliers gain more importance. Thus it is necessary to consider the stages of development of the product and the market situation while carrying out internal analysis of a firm to clearly identify the relative strengths and weaknesses during the life cycle of a product in the company. Strengths and weaknesses are not related to product design and R&D alone; Other factors related to finance, planning, management etc. are important. However, it is easier and relevant to correlate study of strengths and weaknesses with relation to product life-cycles because it is the products and services after all, that a company offers to its customers, and around it are hinged all the functions and operations of a company.

Benchmarking with Competitors

Strengths and weaknesses are relative terms, with reference to competitors, which exist or which may assume this role in future. In a specific industry a company has specific marketing skills, brand image, product quality, product features, managerial expertise, technical knowledge, distribution system, cost reduction program, levels of integration etc. The relative capabilities of a company, with respect to the competitors, can be assessed to define one's own strength and weaknesses. Strategies are then formulated by companies with a purpose of either surviving, or attaining a desired position with regard to market share or any other defined objective. Firms can assess significant favourable differences, which can be used to formulate their strategies. Sometimes it may be quite difficult for a company to acquire skills in various areas at the same level as that of a competitor, and the company's strategists may decide to choose some other course of strategies for meeting laid-down objectives.

Analysis of Industry

Some companies in an industry are quite successful while others are not. Each company thus evolves over a period of time by creating certain rules for successes in business. When industry analysis is carried out taking a host of companies into account, keeping in focus customer needs and considering factors pertinent to that particular industry, the strengths and weaknesses can be largely identified. These strengths and weaknesses can be assessed for future business in industry. This technique is simple and quite often used by various companies. This technique can be used to analyse not only the past performance in the industry but also the present position of companies and their vision, mission and strategies to achieve a position in the competitive environment of business.

ACCURACY OF EVALUATION OF INTERNAL FACTORS

It is quite difficult to assign numerical values to internal factors as these are quite subjective in nature; however, a few factors can be numerically evaluated. Measurement of internal factors is also quite difficult nevertheless, accuracy of these measurements is important. Measurement of these factors is done to assess effectiveness of a company through comparison of factors in the light of historical experiences, study and analysis of industry, and evolution of products and markets over a period of time. Various ratios can be devised to measure financial, market, technology, operating, cultural and social factors etc. Analysis of financial ratios gives a good understanding of the firm's growth and strategies. These quantitative techniques of analysis do help to arrive at meaningful results. All the internal key factors cannot be quantified. Techniques like criteria weightage matrix can be used to quantify the non-measurable factors like brand image, quality of products as perceived by customer, prestige etc.

The internal factors are virtually part of internal business processes of an organisation, and are interconnected as if interwoven into the internal environment of the organisation and therefore each factor cannot be considered as totally independent of the other. Assessment reveals various competitive advantages, around which a company designs its strategies, basic essentials of business that must be met by a competing company and key factors, which enable the company to plan for and acquire distinct competencies, skills and knowledge. As a result of internal analysis, strategy managers come out with a clearly cast company profile with distinct strengths and weaknesses. The entire exercise may be considered as an organisational process forming the very important part of total business activity. It is necessary that the analysis should be timely, accurate, and thorough to yield fruitful results.

APPENDIX

FINANCIAL STATEMENT APPROACH FOR INDUSTRY AND COMPETITIVE ANALYSIS

In earlier days planning was an internal activity of any company, but today companies cannot afford to look only inwards. Today companies have to address careful understanding of environmental trends and uncover surprises.

An industry is defined as a group for companies, which offer products and services, which may not be exactly the same of each company but are close substitutes for each other as far as primary and secondary functions are concerned. Consider two companies manufacturing close substitute products. If the price of one of the products of one of the companies increases, the demand for it would taper. Thus we see that pricing, which is closely linked to profitability, cash flow, cost of capital etc. and a hoard of other factors affects competition. Hence, financial statement analysis, i.e. analysis of balance sheet, income statement, and statement indicating changes in financial position, become vital instruments for measuring the health of an industry and also health of various companies operating in similar financial environment. We know that financial statements of all companies differ quite a bit, and to draw useful information from financial statements it is better if these are standardised.

Usually the following analysis is done to derive meaningful information.

RATIO ANALYSIS

Financial ratio have been very widely used to analyse financial health of a company. Financial ratios are a group of dimensions with the help of which a firm can be characterised and its health estimated.

There are five categories of financial ratio as follows:

a. Liquidity ratio
b. Leverage capital ratios
c. Profitability ratios
d. Turnover ratios
e. Common-stock security ratios

Liquidity Ratios

High liquidity implies that the firm can quickly convert its assets into liquid cash. Usually cash is required on an urgent basis and a firm, which can arrange it without much of a problem when it is due, is called as liquidity.

The liquidity ratios are classified as follows.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick or Acid Test ratio} = \frac{\begin{array}{c}\text{Cash + short term liquidable}\\ \text{Securities + Accounts receivable}\end{array}}{\text{Current liabilities}}$$

$$\text{Defensive days} = \frac{\text{Cash + short term liquidable securities + Accounts receivable}}{\text{Projected daily operating cash}}$$

Leverage Capital Ratios

These ratios show the leverage in the firm and its ability to fulfil its long-term commitments to debtholders.

$$\text{Leverage of long-term debt} = \frac{\text{Long term debt}}{\text{Equity of share holders}}$$

$$\text{Leverage of total debt} = \frac{\text{Current liabilities + Long-term debt}}{\text{Equity of share holders}}$$

$$\text{Timely interest earned} = \frac{\text{Operating income}}{\text{Annual interest payment}}$$

Profitability Ratios

This indicates the company's capability to create profits.

$$\text{Return on assets} = \frac{\text{Net income + Interest – Tax benefits of after tax expenses interest expenses}}{\text{Total assets}}$$

$$\text{Return equity} = \frac{\text{Net income to common}}{\text{common shareholder's equity}}$$

$$\text{Sales margin} = \frac{\text{Revenues – Operating expenses}}{\text{Revenues}}$$

Efficiency or Turnover Ratios

These ratio indicate the measure of performance in utilisation of assets.

$$\text{Total assets turnover (Number of times assets sold)} = \frac{\text{Period sales}}{\text{Average total assets}}$$

$$\text{Average collection period (Number of days for credit collection on goods sold)} = \frac{\text{Average accounts receivable}}{\text{Daily sales}}$$

$$\text{Inventory turnover (Number of times inventories sold)} = \frac{\text{Period sales}}{\text{Average inventory}}$$

Common-stock Security Ratios

From the point of view of the shareholder, some factors are worked out on per share basis.

$$\text{Earnings per share} = \frac{\text{Net income available for common}}{\text{Number of shares outstanding}}$$

$$\text{Book value per share} = \frac{\text{Shareholder's equity}}{\text{Number of shares outstanding}}$$

$$\text{Dividend per share} = \frac{\text{Dividends paid on common}}{\text{Number of shares outstanding}}$$

$$\text{Market to book value} = \frac{\text{Price per share}}{\text{Book value per share}}$$

Other Ratios

Depending on the nature of industry, some other important ratios may also be worked out like average sales growth in percent, R&D expenses as percentage of sales, capital investments versus sales, company growth versus industry growth etc.

STANDARDS OF COMPARISON

We know that above ratios are pure numbers, and hence some standard is required for comparison purposes to draw a conclusion. The preferred methods for defining the standards are as follows:

Cross-sectional Analysis

Financial ratio for all the companies in an industry may be calculated at a particular time, taking into account data of a specific period. Mean or median of these companies may be calculated for that specific ratio and a comparison made with reference to this calculated value.

Time-series Analysis

When our interest is to see the behaviour on indicators over a period of time (i.e. many years), we carry out time-series analysis. The above calculations are done for each year for indicators of interest, and graphs are plotted to analyse the trends including mean or median of the group of companies. Econometric models, and Box Jenkins analysis may also be used for this purpose.

QUESTIONS

1. Why is internal analysis of companies important for formulating strategies?
2. Justify the statement that internal analysis of companies is a key to develop competence.
3. What are the various approaches to develop a company's profile?
4. What do you understand by buffering strategy?
5. Discuss various dimensions of nature of internal environment of a company.
6. How do you evaluate key internal factors to a company?
7. What is the effect of accuracy with which various internal factors of a company are analysed?