CHAPTER

9

LONG-TERM OBJECTIVES AND GRAND STRATEGIES

LONG-TERM OBJECTIVES

Companies formulate objectives keeping either long-term or short-term growth objectives. Long-term objectives cover usually a longer period of time, say about five to ten years of time span. In this chapter we will discuss about long-term objectives of companies. The objectives are basically open-ended attributes and signify the future states and outcomes in a company. The goals on the other hand, are close-ended attributes and are quite exact. The goals are expressed in specific terms. The objectives define an organisation's relationship with its environment, help it to pursue its mission and purpose, provide basis for strategic decision making, and provide a standard for performance appraisal. Hence, it is necessary that objectives must be understandable, specific, measurable, controllable, challenging, and should be set keeping various constraints in view.

It has been well recognised that short-term objective of profit maximisation is definitely not the best approach, if one wants to achieve sustained growth and profitability. Management of a company will have to choose whether it wants to sell off all the inventories, cut R&D budgets, layoff workers etc. to get immediate gains or they should decide to reinvest their profits in growth apportunities by exploiting resources to their best, doing market research to meet customer's needs and improving performance. Most of the managers focus on growth. Work, goal and objective may have different connotatations to managers depending on their level of operations (Refer Exhibit 9.1). We know that production or sales goals affect profits and vice versa. Functional goals of each individual in an organisation get dovetailed into overall management objectives. Lack of visualisation of goal may affect the total management objectives. Hence,

- Goals bring unity of purpose in an organisation.
- Goal facilitates planning, coordination, and formulation of strategies.

Goals create a basis for controlling and motivating people to work in a defined direction. Refer Exhibit 9.2 for pyramid of goals.

Exhibit 9.1 Strategic Decision Levels and Required Skills

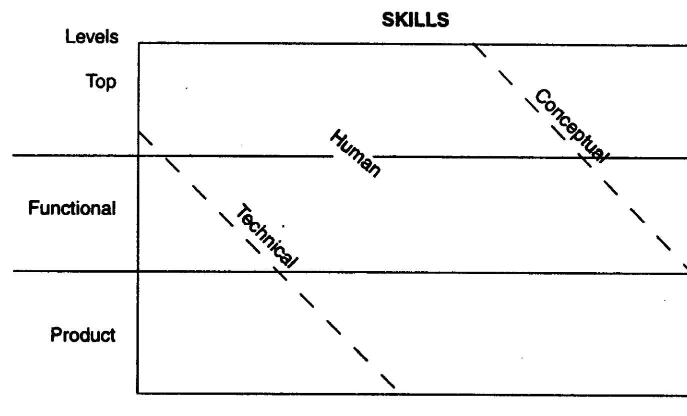
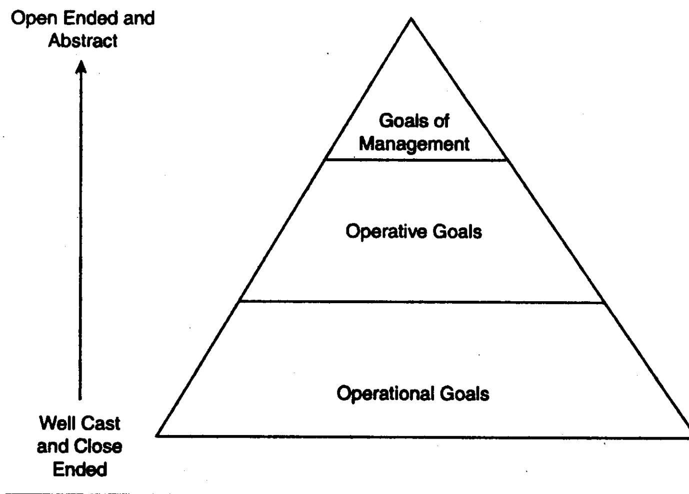


Exhibit 9.2 Pyramid of Goals



Usually following areas are chosen for setting objectives.

Productivity

Every company wants to be productivity-oriented. They want to improve the input-output relationships. If productivity of systems, designs, production, operations etc. is good, the profitability would be higher. The productivity can also be increased by reducing the cost, scrap generated, increased speed of operations etc. A company may set objective for improving productivity by reducing wastage and cost, system

simplification, empowering its people, training personnel in multiskills, opening avenues for workmen to implement suggestions in their own operations etc., and by increasing functional worth of its products and services. It has been the effort of managers, to improve labour productivity by introducing various systems of measuring labour productivity and paying compensations accordingly, however, new technologies and methods have been developed in the last decade to substitute human labour with machines for reasons of higher productivity even in difficult working environment.

Profitability

An acceptable level of profitability is a must for any organisation through which it generates surplus for its continuity of operations. Companies which are strategically managed usually have profitability as one of their objectives as it is through profits alone that they can survive. Higher profits also mean efficient and effective working of an organisation. Companies, which cannot make desired profits find it almost impossible to survive. Due to fierce competition the profit margins have shrunk as customers have become more aware of returns on investments, hence companies will have to gear themselves for efficient management of their resources to generate profits.

Competitive Position

Every corporate wishes to become a business leader. It wants to take a position of business leader in its own field. In a given environment there are many companies in competitive fray having their own core competencies and based on their strengths they try to gain a position of leadership. Sales volume and market share are often used as indicators for leadership. The leadership could also be in the field of technology. Attaining a position of leadership itself becomes competence of a company which it may use to further consolidate its position (Refer Exhibit 9.3).

Exhibit 9.3 Size of Competitive Advantage

Number of Unique Ways to Achieve Advantage	Small	Large
Large	Dividend Profitability Non-Corrected	Specialisation Attractive Profitability Even by Smallest Business Beered on Focussed Strategies
Small	Stalemate Profitability Low and Not Related to Size	Volume Close Association Between Market Share and Profitability

Employee Development

In order to attain a position of leadership, companies have to concentrate on development of their people. We know that behaviour of an individual is towards satisfying his or her needs. The intensity of needs of different individuals is different. The striving for the things employees want and need, is what is motivation and hence management must give ample opportunities to its employees to fulfill their needs and feel motivated. One of the most important needs of any employee in an organisation is to acquire higher position. They value growth, and career growth opportunities keep them motivated. Process of growth cannot be only one way, and companies must open new ways of identifying growth potential of its employees through identification of training needs and organising workshops, courses and seminars for employees to actively take part for adding to their knowledge. Sometimes employees are trained in specific skills related to their jobs and on other occasions they may be given inputs related to their company to make them aware of vision and operations of company. Hence, many organisations include employee development as one of their objectives (Refer Exhibit 9.4).

Exhibit 9.4 Secret of Being Effective Leader

Based on a study conducted of 200 companies, it has been identified by Goleman that three aspects of Emotional Intelligence are important for an effective leader. Emotional intelligence factors are awareness of self, regulation of self, and empathising. The emotional intelligence helps leader to draw participation of people towards meeting organisational objectives and this can definitely be learned.

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

Employee Empowerment

Employee empowerment is closely linked to employee development. Employee empowerment inculcates more confidence in employees to take more and new responsibilities and thus contribute their best to the growth and prosperity of organisation. In some companies power related to decision taking is highly centralised, which causes delays and may even result in wrong decisions due to complex nature of problems being faced. In such situations some fragmentation of business processes to empower more employees to share the responsibility of decision taking, yields better speed of operations. Some companies have altogether done away with a separate quality control function and have empowered the operators to carry out self inspection. Many companies keep employee empowerment as part of their objectives (Refer Exhibit 9.5).

Exhibit 9.5 Comparison Between Classical and Participative Organisation

Classical Design	Participative
1. Employment do not feel free to discuss job problems.	1. Employees given opportunity to discuss job problems.
2. Absence of free flow of ideas for improvement.	2. Free flow of ideas for improvement
3. Motivation confined to physical, security and economic aspects.	3. Motivation through recognition, participation.
4. Unfavourable attitudes of employees.	4. Favourable attitudes of employees.
5. Information flow in top-down	5. Information flow through out the organisation.
6. Interaction almost absent.	6. Interaction is open and extensive.
7. Decisions are taken at top.	7. Decisions pertaining to a level taken at that level.
8. Goal setting is only at top.	8. Goal setting through participation.
9. Goals may be unrealistic.	9. Goals usually realistic and achievable.
10. Control is centralised.	10. Control is dispersed.
11. Control is by others.	11. Control is by self.
12. Performance objectives are low.	12. Performance objectives are high.
13. Absence of human resource development.	13. Human resource development emphasised.

Employee Relations

Good employee relations in a company are vital for its growth. Some companies have defined policies on maintaining good employee relations and make efforts in this direction. Omega industries has designed various schemes for their employees like health care, educational allowance, and equity participation. The company distributes milk and food grains to its employees and arranges for education of children of employees. Doctors visit premises of the company and carry out health checkup of employees and their dependents. Companies do not want any disturbance in their company and seek good employee relations. They keep unions in good humour and build harmonious relations with employees by taking care of their health, education of children, canteen facility, participation in management etc.

Technological Leadership

Some companies spend a lot of money on their R&D activities and try to maintain their technological leadership, which gives them extra leverage for profitability, market share,

growth, image etc., hence many companies declare their objectives keeping technological leadership in focus. Some companies develop specific technologies which give them an edge over their competitors and they exploit this edge to get more market share as is evident in advertisements of consumer durables like refrigerators, specifying about the compressors or freshness of food through use of a special heat insulator or frost free facility. Similar is the case for cieling fans, mixers and grinders, food processors, ovens and other consumer durables. (Refer Exhibit 9.6).

Exhibit 9.6 Problem of Customer Retention and Technology

The financiai services institutions are facing tough times due to fierce competition wherein customer retention has become even more difficult. It is being increasingly felt that capital must be conserved and skills of internal technologies upgraded to develop better understanding of customer needs. Technology is not to be viewed merely as the cost of doing business but to acquire skills to change the cost structures and capabilities. The technology should form the part of the very fabric of customer service, anytime and anywhere. The benefits aimed at are improved customer satisfaction, reduced need of training, and maintenance and more successful business.

Sources: Prashant Singh, "Marry to Satisfy," *Economic Times,* February 18, 1999.

Public Responsibility

Companies express their social responsibility by including objectives in their list related to social development. They usually exceed government regulations in this regard. In order to present their image as a responsible corporate citizen, they include objectives to this effect.

CRITERIA FOR QUALITY OF OBJECTIVES

The objectives set should be specific and clear, multiple to include all important facts of business, valid for a specification period, verifiable, and related to reality.

The quality of objectives can be examined in the following dimensions :

1. Acceptance The objectives should be set which are acceptable to the people for whom they are set. Objectives that are consistent with the perceptions and preferences of the managers are often pursued by them and if they feel that they are unfair, incorrect, and offending, they leave no stone unturned to see that they are defeated.

2. Flexibility Due to the fast changing business scenario, it is necessary that objectives must be flexible and modifiable. The flexibility and specificity are two contrary requirements of quality of objectives; however, a good situational balance between

the two should be maintained. The flexibility could be induced in the level of objective rather than its very nature.

3. Measurability It is necessary that objectives should be measurable in order to induce a sense of achievement. The measurability is introduced through numerical specificity thus making them easy to understand.

4. Motivation The objectives should pose a challenge to employees and at the same time these should not be tough enough to be achievable. There is usually a wide variation in perception of group regarding challenging nature of objectives. Generality in objectives should be avoided and these should be tailor-made to induce motivation amongst employees.

5. Focus Objective should be in line with vision and mission of a company. Objective should provide stepping stones to achievement of overall mission of a company. If objectives are not well focussed with mission and vision of company, they confuse people. Focussed objectives provide a clarity of action for employees and give direction for growth.

6. Understandability Complexity should not be there in defining objectives. No jargons and complicated high sounding words should be used for objective definition. Misunderstanding of objectives can be fatal to an organisation. Objectives should be preferably in the language, which is well understood by employees of a company. High sounding words may look quite attractive but they serve little purpose for which these are defined.

7. Achievablity Achievable objectives motivate people whereas unachievable objectives frustrate people. In a fast changing business environment it is quite difficult to set achievable yet challenging objectives, which largely depends on predictability of environment.

GRAND STRATEGIES

There is a lot of variation in the businesses and the rules of businesses that are in vogue, however, can be very broadly classified into the basic framework of grand or master strategies.

A grand strategy is one which provides guidance for major actions for the purpose of meeting long-term objectives. These provide a basic direction for strategic action in line with major corporate objectives of a company. These grand strategies are thus a blue print for action.

It is not necessary to use a single grand strategy and a combination of two or more is quite common amongst industries depending on multiplicity and complexity of business. When a company is involved in multiple industries, again a combination of grand strategies may be used.

Selection of a grand strategies has been limited for their application due to the following reasons.

1. Traditional managers usually build their action plans from status quo, which leads to myopic attitudes towards growth, which is incremental in nature and not with quantum improvements. Thus a treasure of potential grand strategies remains unexplored by them.
2. Strategy managers who are aware of grand strategies lack the knowledge and experience of selecting and implementing grand strategies. Thus, managers must be trained not only on available grand strategies but also on ways and means of implementing them.

Generating Strategic Alternatives

Companies have different sizes, styles of management, work ethos and specific characteristics of industry in which they operate, hence, methods of identifying the course of action for their survival and growth considerably vary from company to company (Refer Exhibit 9.7).

Exhibit 9.7 Factors and Functions of Functional and Divisional Organisations

Functions	Divisional Organisation	Functional Organisation
Strategic		
Style	Enterprenurical	Professional
Functioning	Authoritarian	Participative
Environment		
Rate of change	Fast	Slow
Fierceness of completion	High	Low
Stake holders expectations	High	Low
Organisation		
Size	Large	Small
Complexity	High	Low
Product mix	High	Low
Responsibility		
Task variation	Gross–Functional	Limited to Defined functions
Efficiency	High–Based on Profits, ROI	Low–Based on Cost of Operations
Responsiveness	Fast	Slow
Risk	High	Low

For Small Organisations

In very small organisations, the owner is the CEO and he takes decisions regarding strategies to be followed in specific conditions. These decisions may be related to new

businesses, adding or liquidating a part of or whole of the business. The decisions are mostly intuitive and based on information that the owner gets from trade magazines, bureaucrats, and other industrialists. Implementation of strategies and actions is quite fast.

For Large Organisations

Large organisations are complex, and authority and responsibility relationships are also quite involved. Hence strategic alternatives are evolved through following processes.

i. Brain Storming
ii. Specific meetings, structured for this very purpose
iii. Advice of consultants
iv. Combination of the above

Brainstorming Speculative thinking is done through brainstorming in a group where alternatives are generated, which are later on ranked. These are reviewed and implemented for optimising certain parameters required by the management.

Structured meetings Task groups are made based on management decision, who visit all the organs or departments of the company and even develop contacts outside the company to understand the total business scenario and based on their meetings with executives and workers at various levels, finalise an action plan of possible strategies in specific areas and present the same to the top management.

Alternatives may be based on the following factors:

i. Rate of growth of economy vis-a-vis performance of company.
ii. Position of foreign exchange reserves and their need pattern.
iii. Rate of price rise of raw materials, goods, and services.
iv. Rate of unemployment in industry, company, and state.
v. Inclination of the political party in power.
vi. Rate of technological obsolescence.
vii. Social factors.
viii. Cultural Factors.

Based on the assumptions pertaining to the above factors, alternatives in strategy can be worked out. It is pertinent that expert advice may be taken due to natural myopia that executives of a company might have.

Meeting with consultants A Consultant may be involved who can study the environment and the company carefully and create solutions, which would be best in the interest of the company. It must be carefully understood that vision of a company relates to the future and hence the objectives that emerge must reflect meeting of vision. Defining of vision is not based on a flow chart but is an emotional process rather than being a rational process. Setting of objectives is a more rational process and hence consultants can be of help who should first understand the vision and then go a step further in casting out objectives.

Classification of Strategic Alternatives

The strategic alternatives may be classified, based on the risks associated with each strategy in its correct and effective implementation and the quantum of assumptions made that would prove to be correct.

The ranking can be done as follows

i Strategies with low risk
ii Strategies with moderate risks
iii Strategies with high risks

The strategies may also be classified as

i. Stable growth strategies
ii. Profit strategies
iii. Stable growth and pace strategies
iv. Sustainable growth strategies

Selection of Strategies

The key steps in selecting an alternative are as follows:

i. Analysis is made of current and projected performance and followed strategies of a company.
ii. The strategic gaps, if any, are identified.
iii. Strategic alternatives are then generated, which would close this strategic gap. The gap is the perceived difference between the target performance and the projected performance.

This could be narrow, quite large, or very large. Following alternatives may emerge at this stage:

a. If the perceived gap is narrow, it is expected that stability strategy would be followed.
b. If the perceived gap is larger, it would imply that either there is an increase in the targeted level of performance in which the case gap is positive. In case there are changes expected to take place in the environment, which would lead to poor performance in future, gap is considered to be negative.

Growth strategies would be followed in cases where the gap is positive and retrenchment strategies where the gap is negative. Large positive gaps occur due to opportunities and large negative gaps due to threats; however, one must appreciate that threats and opportunities are a matter of perception of leadership. Thus, a large positive gap is due to dynamic and able leadership believing in transformation and growth. Similarly, strengths result in growth strategies and weaknesses in retrench strategies.

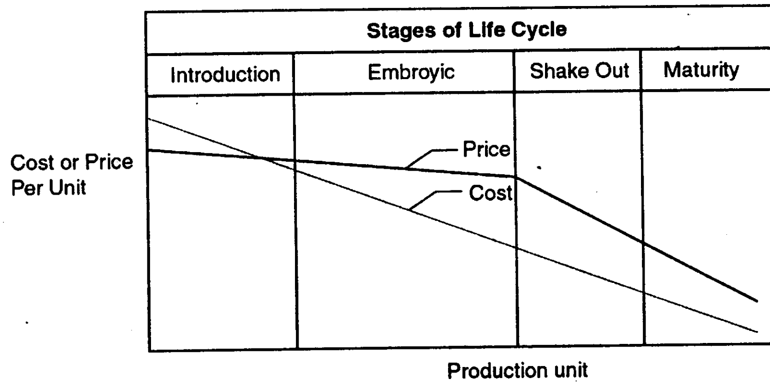
In complex organisations a combination strategy may be followed.

Product Life Cycle

Every product undergoes various stages of called as embryonic, growth, maturity, and decline. When a product or service is born a lot of effort goes in an organisation to incubate and do research to make the product appeal to buyers. As the product

crosses this stage and enters the growth phase, investments in plant and machinery and other resources are made. During maturity, maximum benefits from the product are reaped by the company and during decline a new product is to be launched so that the corporate portfolio is kept balanced (Refer Exhibit 9.8). There are other methods of selecting strategies that would be covered extensively in the next chapter.

Exhibit 9.8 Behaviour of Cost and Price with Production



Concentration

When a company follows a concentration strategy the activities are concentrated in doing one thing and doing it well. Small organisations usually follow concentration strategy. It enables members to develop skills in a specific area which allow the company to compete with organisations that have more diversified activities. However, many large organisations also follow concentration strategy in specific areas. Some companies choose to operate in a single product and in a single market and rely on a single technology concentration, which they consider to be typically lowest in risk and does not entail additional resources. There is a specific specialisation achieved by the companies following this strategy. The market in concentration strategy can be enlarged by enlarging usage of specialist product and service by the customer. The concentration strategy thus gives a competitive edge to a company; however, the growth rate may be slower and there would only be a narrow range of possible investment options. The industry trends can affect their business and in severe situations they may go for market and product development (Refer Exhibit 9.9).

Exhibit 9.9 Options in Concentration Strategy

1. Increasing rate of usage
   - Increasing size of purchase through discounts
   - Increasing the rate at which product become obsolete
   - Increasing other functional uses of product
   - Increasing rate of usage by making part of habit

2. Increasing number of customers
   - Creating strong product differentiations
   - Increasing product promotion
   - Reducing price
   - Enhancing quality
   - Reducing delivery time
   - Increasing service quality
   - Introducing trails through samples
3. Opening additional markets
   - Regional expansion
   - Using new outlets
   - International expansion
   - Developing uses for other segments
   - Advertising through media
4. Developing new features
   - Adapt from known products
   - Combine functions of two or more products
   - Modify shapes
   - Change colours, motion, sound i.e. physical characteristics.
   - Magnify
   - Miniaturise
   - Substitute materials
   - Change patterns
   - Make throw away
   - Combine appeals, ideas etc.
   - Develop quality variations
   - Create more models

Source: Philip Kotler, adapted from *Marketing Management*, Prentince-Hall, Englewood.

Market Development

Market development is a fairly widely used strategy. This strategy entails selling of present products in new markets. This is achieved through entry of the company in new geographical areas for distribution and selling of products. A company may decide to explore new markets for selling its products including overseas markets.

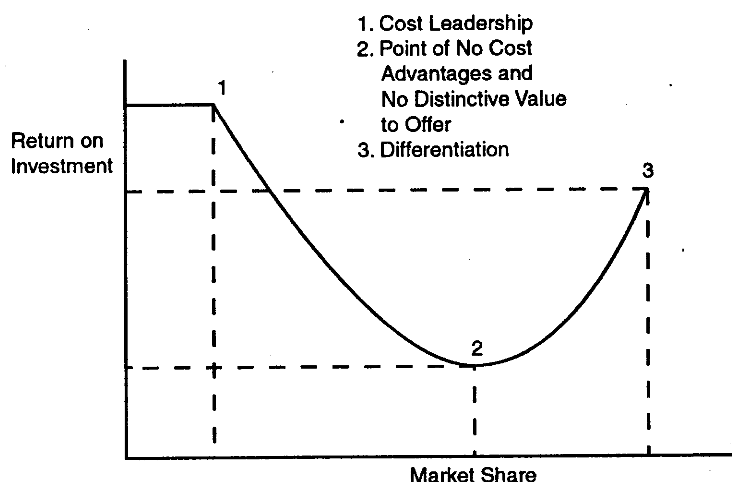
The entry to new markets means capturing attention of new customers through vigorous advertising and using different selling techniques to contact more and more customers through door to door selling with lucrative offers. The product may basically remain same although some cosmetic changes may be made. It is also possible for companies to develop various other means of market development like offering better services, demonstration of products on customer's request, exchanging new design of

product with old ones at a premium, contacting more customers through various clubs, societies, and organisations etc.

Product Development

When a customer purchases a product or service, he expects value for the money spent. While he purchases and goes for the product or service, he keeps the functions required from the product or service in mind. Every product or service can be viewed as a bundle of functions. The functions can be enhanced such that the customer is able to derive more value from the product. More functions can also be induced in a single product to increase usefulness of the product. The life-cycle cost of the product may also be reduced by enhancing reliability. Similarly, ownership cost of a product can also be enhanced through improvement in design of the product. This has been clearly observed in cars and scooters where in old design of cars consumed more fuel and also demanded more maintenance whereas cars of the new generation highlight in their advertisements that these do not need any kind of maintenance. The same is true for batteries, washing machines, and variety of equipments being sold in the market which not only claim to have ensured trouble free operation of their products but would also replace the old one by new one in event of a problem. The basic idea is to attract more and more customers and also to maintain the old customers (Refer Exhibit 9.10).

Exhibit 9.10 Profitability Patterns with Share (U-Shape Effect)



Innovation

The fast changing technological environment makes it mandatory for companies to innovate. It may be increasingly risky in some markets if product innovation is not

carried out. Innovations may also be carried out in the processes of business to increase speed of operations thereby cutting the costs. Innovations in new material, systems, product feature, and ways to satisfy new requirements of customers is constantly taking place in markets. Companies patent their innovations to derive long term benefits from an innovation. Initially innovations prove to give more profits, however, over a period of time the profits may decline necessitating another innovation. The innovation can also be made in field of advertising, marketing, and selling techniques to yield good results. Many companies occasionally use innovation as their fundamental strategy and use it as their basic way of relating to markets. The innovations give quantum jumps in profits and the cost incurred in R&D to develop the idea often appears to be quite meagre. This has been clearly observed in the areas of drugs, cameras, information technology, and other high technology items. It must, however, be pointed out that innovation strategy is more risky when compared with market development and concentration, as out of many innovations that may take place there would be only a few which would be having real commercial value. Sometimes the failure rates could be as high as eighty percent.

HORIZONTAL INTEGRATION

When managers in an organisation want their company to grow, they opt for horizontal integration. Horizontal integration means adding up or acquisition of two or more companies in the same industry.

Horizontal integration builds up synergy and can provide companies with opportunities to have fast access to new products, services, geographical regions, and customers.

Horizontal integration is best when an organisation has several strengths but faces threat from a strong competitor. The benefits accrued from horizontal integration are not the arithmetic sum due to strengths of two companies but go much beyond it. Thus competitors may almost be totally eliminated.

In the fast changing world of business today, we very often hear of companies going for horizontal integration by acquiring new companies. Acquisitions of companies has not been uncommon in the past, however, horizontal integrations have become quite common in today's business world due to expansions in business and markets and developments in communication technology which has shrunk the world (Refer Exhibit 9.11).

Exhibit 9.11 Cement Industry—Some Mergers and Acquisitions

The cement industry has seen changes by way of some mergers and acquisitions. During March 1998, Chennai based India cements made a premium offer to pick up 20 percent stake in Hyderabad based

Raasi cement. The Autoriders Group of Mumbai bought a 9.5 per cent stake in Saurashtra cement.

Source: I. Satya Sundaram, "Cement Industry: Fluctuating Fortunes," *Industrial Economists*, 15–29 January 1999.

VERTICAL INTEGRATION

Every company has inputs and outputs. The inputs are from suppliers and the outputs go to customers who in turn may be suppliers to some other company. In vertical integration, the businesses in the input and output or only in one direction i.e. only output or input are integrated. When integration is done on the input side it is termed as backward integration and when it is done on the output side it is called as forward integration.

When compared with horizontal integration we know that the horizontal integrations offer a gammut of advantages viz. expansion of operations, increased market share, improved economies of scale, and efficient capital utilisation coupled with lower risks due to proven abilities of companies involved. However, in vertical integration the reasons are not so transparent and are quite complex. Companies often go for backward integration to ensure timely supply of inputs, in good quality, and at lower costs. The dependability of input flow is increased when there are only a few suppliers and the number of competitors are large. A company may decide to integrate backwards, thus ensuring timely supply of materials as per the required quality and cost. On the other hand when competition is less and stable production of goods is ensured, a company may decide to integrate in forward direction, thus having ownership of the next stage and control predictability of demand. There are some risks associated with vertical integration as it makes it necessary on the part of strategy managers to take more challenges and broaden their areas of responsibilities.

JOINT VENTURES

Sometimes companies are found to enter into joint ventures due to incapability of an individual company to do business. In joint ventures, necessary funds, pooling of technical knowledge and infrastructural facilities is done to meet the challenges posed by business environment. A joint venture can be a joint ownership wherein two or more companies join hands and divide the contract amongst them as per their capabilities and for fulfilling the basic criteria. Sometimes due to regulatory requirements, joint ventures become a must when a company wants to do business in a specific country. In India, joint ventures have become quite common after the doors of Indian economy were opened for global players. Most of the foreign companies enter into joint ventures with Indian companies. The joint ventures avoid dominance of foreign companies in the host country and the local skills, growth, and profits are enhanced in the host country. Joint ventures put extra responsibility on the shoulders of firms in host country, which otherwise could be channelised by a company towards its main stream. The demands may be on other resources as well, including technological expertise,

finance, facilities etc. In this aspect leasing, manufacturing under contract or license and providing expert opinion and management consultancy may also be included.

DIVERSIFICATION

Diversification means departing from a company's present business by way of acquisition or spinning off and going into an altogether new business which has synergy with existing business, thus creating a balance between the existing weakness and acquired strengths. Diversification may be made in related or unrelated fields, however, the basic objectives of diversification remain the same (Refer Exhibit 9.12).

Exhibit 9.12 SWOT Matrix and Strategies

	Weakness	Strengths
Opportunities	Quaderant 2 Turnaround Strategy	Quaderant 1 Aggressive Strategy
Threats	Quaderant 4 Defensive Strategy	Quaderant 3 Diversification Strategy

Some of the objectives for which diversification strategy is resorted to could be as follows:

i. Increase value of stock of firm.
ii. Increase growth rate.
iii. Increase return on investment by investing for better use of funds rather than channelising funds only for internal growth.
iv. Increase stability in profits and sales by matching with a company having seasonal business such that crests and troughs are well matched.
v. When life cycle of a product is on the verge of phasing out, going for another one which would have more demand.
vi. Fast acquision of technology, fund, trained manpower, and/or facilities.
vii. For reasons of tax losses which will be offset by earnings.
viii. Synergise between two companies.
ix. Speed up the operations.
x. Deriving strength of centralising the business.

There are basically two types of diversifications possible, which are discussed in detail as follows

Concentric Diversification

Creating or acquiring companies that are in similar business of manufacturing, designing, marketing, distributing etc. related to the product and service is called as concentric diversification. This strategy complements a strength of company and thus leads to growth of organisation. Concentric diversifications may take place because the strategy managers of the two companies know that they have common technologies, customers, distribution channels, and any other commonality that exists such that no major expenditures are involved in changing the organisational relationships, structures, and layouts etc. If a period of one year is considered for accounting, then a company may also go for concentric diversification to meet the market requirements.

Conglomerate Diversification

This kind of diversification is said to occur when a company creates another organisation or acquires another company which is altogether in a different business of manufacturing, designing, marketing, distributing etc. This strategic alternative has high attractiveness where return on investment is aimed to be higher. Various companies are compared on the basis of their contribution to the overall profits and creation of surplus funds. It has a lot of similarity with stock portfolio when a person buys shares of various companies to fetch maximum return on investment. Hence often the sole concern of acquiring a firm is its profit pattern. There is almost no concern for creating a synergy as far as product mix, marketing, designing, manufacturing, and research and development specialities are concerned. It is only the financial synergy which is aimed at. The balance may be tried for cyclical sales such that high cash plus low opportunity and low cash plus high opportunity fit is achieved. Thus profit is the only principal consideration in conglomerate diversification.

DIVERSIFICATION AND SYNERGY

Synergy effect occurs when the total output created by two or more products together is more than the sum of two, made separately, in terms of quantity and quality. It is known as 2 + 2 = 22 effect. Synergies are given as follows.

Production Synergy

In production, the additional products may require similar or existing facilities, thereby culminating in better resource utilisation either on cyclic or continual basis. There may be additional benefits derived from the by-products also. Economies of scale may also accrue benefits.

Marketing Synergy

Market derives a lot of synergy where the distribution outlet for the additional products are the same. This implies that no additional marketing effort may be required and on the contrary synergies help to benefit product sales by multifolds.

Financial Synergy

The new product or service chosen for diversification may be dependent on the operating fund requirement, usually in seasonal businesses like fans, refrigerators etc. A company may choose a product that will be sold in winter like room heaters, and use expertise of designing and manufacturing of fans such that it adds multifolds to its turnover without investing.

Organisational Synergy

The products chosen may fit well into the organisational structures and systems prevailing in a company. The skills required to make the chosen product may be available in the company. There would virtually be no need to create new departments, sections, and systems to handle the new products.

Synergies are to be kept in mind when concentric diversifications are planned and can be well exploited if current management resources in an organisation are underutilised.

PLANNING FOR DIVERSIFICATIONS

Before a management diversifies, it has many options like sailing with the wind i.e. move in prevailing direction, search for new directions of growth, use combination of the above or do simply nothing. However, systematic diversification is a progressive and step-by-step way of doing business. It is necessary to avoid unpleasant outcomes due to failures or lower performance than targetted. The damages due to unplanned diversification can be in large proportions and managers may think that probably no diversification was better (Refer Exhibit 9.13).

Exhibit 9.13 Reasons for Not Diversifying

* If you are small, don't try it
* If you have no power to sustain, abstain
* Plan carefully, see anticipated pit fails
* Be first to bell the cat
* Better ride on a new boat
* Check for your skills (marketing, production, managerial etc.)
* Adapt wherever necessary
* Don't let false ego come your way
* Don't diversify for peanuts (any tax saving)
* You don't lose much by not diversifying

Source: "Diversifying into Disasters," *Business World*, September 28, 1998.

DIVERSIFICATION AS A PROCESS

Systematic diversification is an integral part of any company to become dynamic when required. If a steady growth is desired, a company will have to continuously look for newer opportunities to diversify. Organisations suffer from inherent inertia and therefore all out effort should be made to make them dynamic. One of the key steps before diversification is to clearly define a company's business. The business definition should neither be specific nor too wide. It should amply reflect the vision of the company. In this regard, a company must carryout SWOT analysis or audit. The next step is to carry out gap analysis.

Such analysis would clearly identify the areas where a firm can effectively diversify.

COMPETITION AND ANALYSIS OF RISK

Diversifications go hand in glove with risks and hence a company must prepare itself for anticipated risks. Meticulous planning cannot eliminate all the risks, however, it can minimise them. Incurring excessive risks may jeopardise even the existence of a firm. In order to build trust and a team culture, open and frank discussions between the managers and top management must be held (Refer Exhibit 9.14).

Exhibit 9.14 Major Dimensions of Diversifications

1. Opening of Indian Economy and relaxation in policies, rules and policies.
2. Higher risk bearing attitude on the part of financial institutions.
3. An urge of Indian entrepreneurs to think big and grow big.
4. Easy availability of technocrats and managers.
5. Confidence of common on share market
6. Growing interest of foreign companies in India.
7. Explosion of Indian market size.

Source: IGNOU Course Material, MS-II, Unit-5.

LIQUIDATION

When company managers are confronted with continuously declining performance of total business or in some part of the business due to some internal weakness and/or external threats when they think bankruptcy is inevitable, they may resort to liquidation. The liquidation enables a company to convert its assets into liquid cash from sale of parts or total company and the cash thus generated is then transferred to stockholders. Procastination of liquidation may further lead to sliding of assets value of company and hence when a company is faced with critical financial situation managers may resort to liquidation strategy to get maximum return on their assets. The liquidating business tries to develop a planned and orderly action that would yield maximum returns. Planned liquidation may be worthwhile in some cases.

ATTITUDES OF MANAGERS AND STRATEGIES

Different managers have different attitudes towards risks. In an old organisation where the average age of an organisation is on the wrong side of forty five years, the priorities of managers are different and they would like to avoid risks, whereas younger generation easily embraces challenges and the associated risks. If risk is to be avoided, stability strategy would be adopted. If risk taking is higher, even with environment becoming unfavourable with mergers, growth strategy may be pursued.

The development of strategy is based on past experience. The past strategies get so much programmed that even with their failures, they are pursued and on total failures, new strategies are simply grafted into old ones. Hence changes at top become inevitable (Refer Exhibit 9.15).

Exhibit 9.15 We Have More Number of Followers Rather than Leaders

Most of the people are followers while leaders and followers both are required in an organization. The follower is usually a level below the leader. Following well is key to success and it requires specific skills of active participation, thinking rationally, and acting independently with conviction, sincerity, commitment, and responsibility. Followers may be classified as follows:

1) Sheep: They are passive followers. They follow the trail.
2) Yes-masters: They are a little better and hence participate with enthusiasm. They tend to confuse the leader that are thinking.
3) Disgrunted lot: They were once yes masters but were misguided and hence are sour.
4) Pragmatic lot: Their focus is on survival and hence they cross fences.
5) Stars: There are competent, conscious, and cooperative people and make leader's life a lot easier. They sort out disagreements, use persuasions, and resolve conflicts.

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

Selection of strategies are also guided by external dependence as is in most of the Indian companies who have to depend for funds and technology on their counter parts from other countries. Strategies are sensitive to time. If timely strategic action is not taken, the alternative may become obsolete. Policies, competition, technology etc. change and hence choice of strategy is also dependent on time.

The selection of alternative may not always be rational and may largely depend on intuition. Power relationships play an important role in strategy selection by a company.

Political power equations also affect strategic choices. The organisational ability is another crucial factor in choosing a particular strategy.

MERGERS AND TAKEOVERS

Being quite specific, merger means when two or more companies, almost of equal size or strength, formally join together to submerge their corporate identities and form one single company in a friendly and congenial atmosphere such that a holding company is formed and its shares are exchanged for the shares of the merging companies.

When a merger is not agreed upon by two companies, takeover or acquisitions happen in which a company offers cash or securities in exchange for the shares of another company which is being taken over. Typical ways adopted for avoiding takeovers consist of raising premiums above even hundred percent, overstating of the profits and sabotage.

MERGER PROCESS

The process of screening the companies for mergers and acquisitions is from general to being more specific. The first step is to identify the industries where merger is possible. The identification is based on basic strategic conditions chalked out by company including that of size, finance, management, economies of scale, market, future business, and growth potential etc. The company then identifies the sector and collects data on sales turnover, growth, return on investment, market shares, competition etc., and most desirable sectors are than selected. In the next step, companies are chosen depending on their sales turnover, asset level etc. which gives indication of cost of acquisition. The competitive strengths and competencies are also identified which would help in the acquiring of a company.

A comparison of various companies is made, based on cost of acquisition, return on investments, future returns, risks, uncertainties, and other factors that may be vital for business. The ranking of candidates is then made based on criteria defined by the management. The criteria is usually that the returns should greatly exceed the cost of acquisitions. The concept of fit is used to analyse the effectiveness of merger by accounting for various factors, such as costs of integrating, incubation period, improving the performance etc. An index may also be developed, if required. Probable candidates would be probably those which have high market share, growing market, bigger sales volume, effective management, diversified portfolio, return, and on investment to cross bench marks. Usually companies embark on inefficiencies of the takeovers as companies having all the good dimensions may not even be available for sale or takeover. In principle, a company may take over full or part of a company. When a full company is retained after merger, integration is necessary whereas when only a part is retained, clean up of the portfolio is to be done and a part which does not fit well is sold off at premium. Adaptation may also be necessary in some cases by the integrating company.

The suitability of a proposal is measured on various dimensions, such as fund availability, likely positive synergies after merger, negative synergies that are likely to crop up, correct timing, management capability to harness benefits etc.

VALUATION OF MERGER OR TAKEOVER

Valuation for mergers and acquisitions is necessary to be made based on value of shares or stock of a company which is determined by

- Present returns on investments
- Likely future dividends
- Likely risks of future returns
- Profitability
- Likely growth rate

Valuation is done through rigorous analysis and various indices are calculated as follows.

1. P/E ratio: Ratio of P/E (Price/Earning) is calculated to get an idea of value.

$$\text{P/E ratio} = \frac{\text{Market price per share}}{\text{Net earning after tax per share}}$$

   Different companies have different P/E ratio due to the following factors.

   - rate at which the company is growing
   - associated risks of investment
   - competition
   - business environment

2. Earning per share: Let market price of share be Rs. 100, and P/E ratio be Rs. 20 then earning per share would be Rs. 5. This is a static measure of performance of acquision as the share value can drop or rise. Other factors like profit and loss accounts, balance sheet etc. must be looked into to develop a scenario of performance of company.

BUILDING A SCENARIO

i. Investigate into the loss making operations within the company and divest them to generate liquid funds for running the profitable part of business.

ii. Calculate various ratios to estimate the performance of company.

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

This may be compared with industry average.

iii. To check whether there is a high-level of stock and excess money block calculation of level of stock is done.

$$\text{Level of stocks} = \frac{\text{Stocks}}{\text{Cost of goods sold}} \times 12 \text{ months}$$

This may be compared with industry average value and methods evolved to reduce this.

iv. Average age of debtors $= \frac{\text{Debtors}}{\text{Sales}} \times 365$

This figure should be compared with the average age of debtors and if the acquirer's age is lower, methods should be devised to exercise acquirer's credit controls to reduce age of debtors.

v. The funds that are released turn debtors and stocks are pumped back to reduce current liabilities like bank overdraft, working capital loans etc., to reduce interests.

vi. On the basis of the above analysis, a new balance sheet and profit and loss account is prepared and new earning per share is calculated.

The mergers should also be valued on the basis of expected growth rates of different companies if managed independently and a comparison is drawn with their combined performance. In the initial stages earnings per share may seem to be higher but due to different growth rates of two companies, the growth rate of combined company may be lower. This method is not quite acceptable as it is based on reported earnings and not actual earnings, however, these are only projections and companies may use the pitfall to cheat by manoeuvering the earnings that are reported.

MARKET VALUE OF ASSETS

Another way of evaluating a merger is through assessment of market value of used assets of a company, if traded that would yield a definite sum of money, which would be its true worth, however, the buyer in the market may not perceive the assets for the functions for which they exist. There are certain assets like building, furniture, office equipment, which have generally the same functions when used anywhere, however, dedicated equipments may have different worth for buyers. These may sometimes be required to be converted to enhance value and hence the conversion costs, if any, should also be considered.

REPLACEMENT VALUE OF ASSETS

The written down replacement value of assets may be calculated using the following equation.

Written down replacement value

$$= \frac{\text{1 - Age of assets}}{\text{Total economic life of asset}} \times \text{Current price of asset in market}$$

Replacement cost analysis is a better method of assessing the cost as it accounts for inflation. Due to technological difference, the economic life assessment value of asset is compared with other investment options of company.

RETRENCHMENT OR TURNAROUND STRATEGIES

There could be several reasons for which performance of a company may considerably decline. There may be technological obsolescence, economic recession, worn out mechanisms, production inefficiencies, and vigrous innovations by competitors. Managers may think that their concerted efforts may save the company from this continuous sliding. Managers then may resort to retrenchment or turnaround strategy which may be the result of a lot of studies conducted to make an organisation think with required agility.

The strategy usually consists of two basic alternatives or a combination of the two is used depending on the circumstances.

Cost Reduction

It may be required to reengineer business processes thereby eliminating non-value adding activities and increasing the speed of operations, which may entail retrenchment of employees. The company may adopt drastic standardisation and may use value management techniques to take decisions on making versus buying or, leasing rather than purchasing and extending life of machines etc.

Asset Reduction

A company may decide to sell its assets viz. land, building, computers, machinery, etc. which may not be essential to the main business of company. It may also take other measures of reducing expenditures on travelling perks to its employees. When these approaches fail, the company may decide to take more drastic measures like dropping some of the production lines, not catering to needs of low margin customers etc. The strategy is called turnaround because it tends to reverse the negative trends of a company. Usually sliding down of company is due to major failures at the top management level and hence major changes usually take place at top management level and in administrative cadres. Due to lack of perspective, the situation may become worse day-by-day and bringing in new, young, and qualified managers leads to turnaround, thus raising the morale of employees.

Divestiture

When a company decides to sell either a part or whole of its business, it is called a divestiture strategy. It is not possible to find buyers for a business unless they are clear that with prevailing skills of management, financial and other resources and synergy with business in question, they will be able to generate profits which would decide the price of business. On the contrary, the seller would expect a premium on business that would fetch him more value compared to the price of fixed asset.

There are several reasons for divestiture strategy to be adopted. Many times there may be a mismatch between the main stream business of the company and the business decided for selling off. It may be difficult a integrate a business into

mainstream due to reasons of employees, cost structures, high overheads etc., hence a company may decide to sell off a part of business to a more willing aspirant. Sometimes due to an urgent need of funds one may decide to sell off a part of business to provide financial stability to the corporation. Thus, a sacrifice is to be made by selling a high market value business due to its higher attractiveness for buyers, leading to fast generation of funds. Sometimes government may put pressure on a company by way of regulation against monopolising or unfairly dominating a particular market.

Combination of retrenchment and divestiture strategies may be adopted by companies to claim tax benefits and also reduce load of long-term debt.

FITNESS OF OBJECTIVES AND STRATEGIES

The process of selection of objectives and grand strategies is usually simultaneous. The opportunities which are available, open doors for objectives for which grand strategies according to SWOT profile of a company is chosen. The process cannot be sequential due to a fast responsive system and also due to the requirement of simultaneous consideration of all the three factors viz. strategies, opportunities, and objectives. In given set of opportunities and to meet certain objectives, there may be a few strategic choices and due to interactive nature of these opportunities which can be availed by a decided set of grand strategies, success of achieving objectives by a combination of strategies may be vital for a company. In actual conditions, the spectrum of opportunities is quite varying in nature and to reap the best out of these opportunities, the evaluative criteria must be carefully examined.

The strategies and objectives are complimentary in nature. One cannot have strategies first and then decide objectives or decide on the objectives and then think of strategies. They are highly interdependent. The objectives are what a company wants, whereas strategies answer how to accomplish them. In fact, strategic decisions can be viewed as a mechanism of control to provide the minimum requirements to achieve an objective viz. men, material, money, etc. and to create most profitable synergies for maximising profits. The constraints on men, material, money, etc. for achieving a defined level of performance is itself an objective of companies and hence constraints themselves are a form of objective. We know that more men may create more confusion and chaos which would make achieving of objectives even more difficult as an organisation may tend to become sluggish in response.

QUESTIONS

1. What do you understand by long-term objectives of a company? Discuss with examples.
2. What are the various areas where a company would generally like to set its objectives?
3. What are the various criteria for judging the quality of objectives?

4. What are master or grand strategics?
5. How are strategic alternations derived for small companies?
6. How would you generate strategic alternations for large companies?
7. How are strategic alternations classified?
8. What are the key steps in selecting strategics most suitable for a company?
9. What are the various approaches adopted to select most suitable strategics for a company?
10. What do you understand by concentration strategy?
11. Discuss market and product development strategies?
12. What do you understand by innovation as a strategy?
13. What is horizontal and vertical integration? Elaborate on joint ventures.
14. What are diversifications? Discuss concentric and conglomerate diversifications?
15. Discuss diversification and synergy.
16. What do you understand by liquidation?
17. Discuss process of mergers and takeovers with some examples.
18. Discuss turnaround strategies.

CHAPTER

10

ANALYSIS OF STRATEGIES AND CHOICE

Strategies can be selected after these have been analysed and their fitness is examined in light of potential opportunities, with strengths and core competencies of a company. It is important to understand various diagnostic tools that may be used for identifying and evaluating applicable alternative strategies in a company doing multibusiness.

The process of evaluation of strategies is basically creative in nature wherein business managers consider alternatives that are available and evaluate possibilities for their practical usefulness. Creativity lies in making incremental changes in strategies through a thorough study of internal and external environment of an organisation. A lot of creativity goes into unearthing the relevant factors used for analysis that may be pertinent to a given industry situation, present, or future. There may be a case of changing strategies altogether rather than making incremental improvements through use of creativity and innovation. While making a logical choice, the future of the company is kept in focus.

On the dimension of time, various alternatives are evaluated in different phases to get a clearer picture on selection of strategies. Some of the basic questions that arise at this stage are:

i. What are the results that the present strategy has been giving?

ii. What should be the new strategy for the future?

iii. What should be the methodology for implementation?

The steps are elaborated as follows:

IDENTIFYING ALTERNATIVES

Identifying and focussing on the alternatives narrows the choice. Narrowing of choice is essential to arrive at a manageable number of strategies that could be easily analysed. Theoretically it may be possible to consider all the strategies with varying degrees of success. However, the objective of a strategist is to choose a few effective strategies to get maximum benefits. To arrive at the decision, a lot of brainstorming, creative

thinking and situational analysis is required to be done. However, it is most difficult to say whether a correct set of strategies have been chosen and whether hundred percent success would be achieved. It is the result that proves whether the selection had been correct because there may be several changes in the environment by the time a strategy is chosen and finally implemented.

Companies usually find it difficult to change their strategies. The foremost reason for this is that strategic thinking is not a core managerial competence of companies. What managers usually do is to polish their ways of doing business over and over again. Once companies find that a particular strategy has worked, they want to follow it only by making some cosmetic changes. It is extremely difficult for managers to unlearn and start afresh all over again. Organisations have biases due to past successes that do not allow managers to do break through thinking. Secondly, there is always a resource myopia. A correct definition of the problem instead of beating around the bush, is the first step towards strategising. Elegant answers to wrong questions only create graves. The root causes in the company must be carefully addressed and the driving forces outlined.

A hypothesis may be developed and it must be tested to develop a clear understanding of the forces that actually work. Brainstorming to define the forces involving all functional groups helps a lot. These driving forces must then be ranked, grouped, and mapped.

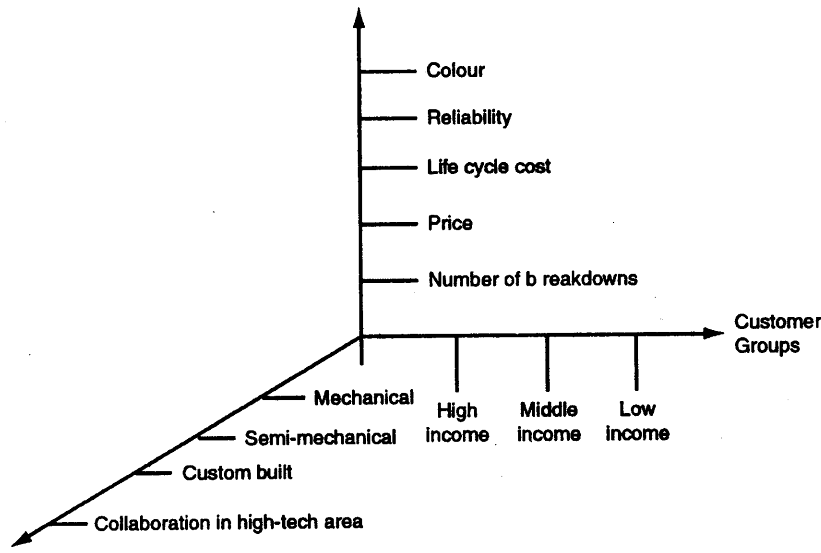
The next step is to formulate a strategy that addresses the driving forces in the form of cause and effect relationships. First, the most significant force must be considered. A strategy matrix grid showing how each force is addressed must be drawn. A plan for the projects to implement strategy is created in future details.

To define the business, mapping may be done as shown in Exhibit 10.1. There may be more than three dimensions when a matrix can also be prepared.

In the above exhibit, customer functions are those attributes that are desired by various customers. Customer groups can be by income, age, state, language, education etc., and technologies can be specific to a product or service. Other factors like quality, cost, delivery time, service, etc. may be considered, depending on the industry type.

The gap analysis is another method for analysing focus on strategic alternatives that has been discussed in Chapter 9.

Exhibit 10.1 Customer Functions



COST DYNAMICS

Cost analysis is very important in business strategy selection. The companies monitor their cost performance and control it to gain competitive advantage, sustain their position, and also attain a leadership. The two basic techniques used for strategy formulation with regard to costs are

i. Experience curve
ii. Break-even analysis

Costs play a vital role in the running of any business operation and cost structures give a lot of information regarding the health of a company. In a seller's market, price is fixed by adding profits to the cost.

$$\text{Product price} = \text{Cost} + \text{Profit margin}$$

Here cost is an independent variable and the customer has no choice but to pay the price. Cost in a buyer's market depends on the permissible price of goods in the market.

$$\text{Profit margin} = \text{Permissible price} - \text{Cost}$$

Here price of a product is decided by the buyer who is outside an organisation.

EXPERIENCE CURVE

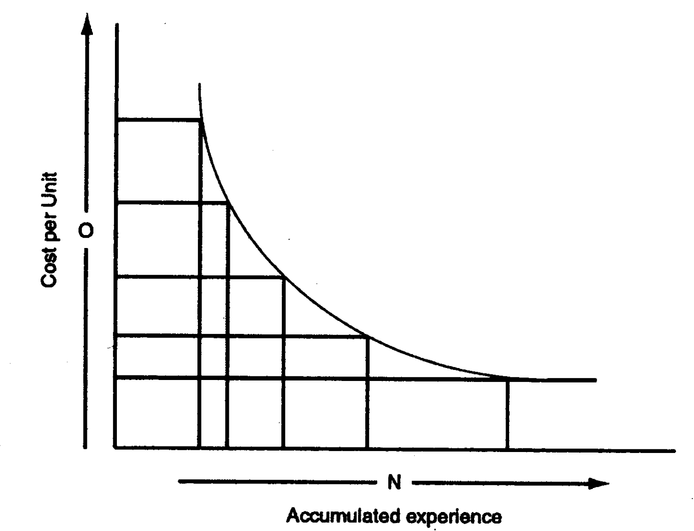
Cost is correlated with experience that is accumulated over the years by experience curve effect (Refer Exhibit 10.2). If the total quantity of production is increased for a standard item, its unit manufacturing cost tapers down. Initially the cost is more due to more time required and is reflected in terms of high labour cost but as quantity

increases, the time on each successive unit decreases. Thus with accumulated experience, the cost per unit dips.

Mathematically,

$$CN = C1/N$$
$$\text{or } \log CN = \log C1 - E \log N$$

Exhibit 10.2 Experience Curve



The experience effect is caused due to the following factors:

i. Productivity improvement of labour due to accumulated experience skills, devising of new tools and fixtures, developing reflex actions etc. This also reduces supervisory and quality control work.
ii. The increased volumes of production lead to more specialisation and thus saves time. Vendors may also be developed to deliver products at the right time, thus reducing inventory costs.
iii. Value engineering of products may further result in substitution of material, better reliability, weight, reduction, scrap reduction etc.
iv. The product line can be balanced and more units produced without extra investments.

However, certain cautions are required at this stage.

i. Passage of time is not experience, but reducing costs with deliberate efforts, with the help of gained expertise is experience.
ii. The work may be fragmented and specialisation in each fragment of total work may have a different experience.
iii. Additional considerations like business cycle fluctuation, inflation, bottle necks, industrial relation problems etc. that cannot be directly reflected on an experience curve must be carefully accounted for.

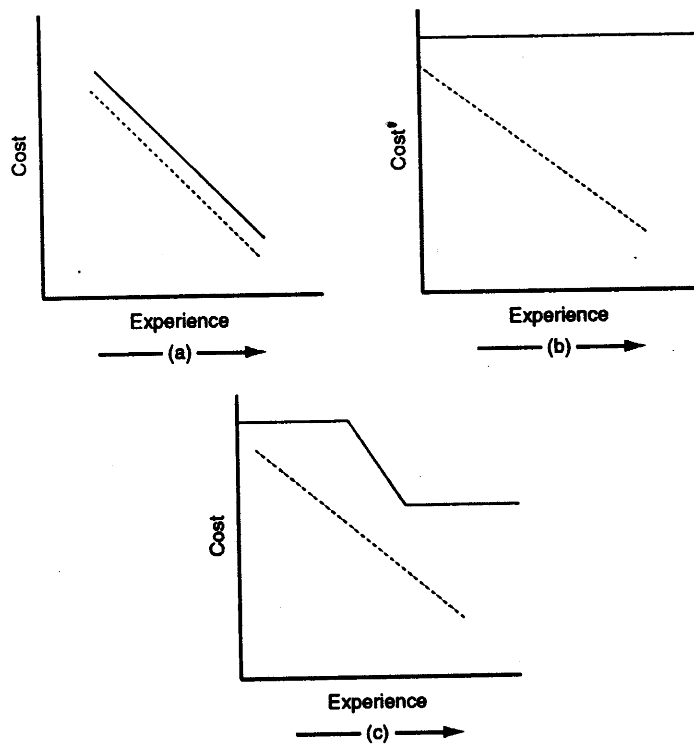
Experience Curve in Competitive Strategy

The experience curve relationship gives an insight to the strategy manager into the industrial scene with regard to future costs, profits, cash flows for a company, and that of competitors in the industry. The basic assumption is, however, that the costs and hence the prices will follow the pattern of a curve. This aspect can be verified by analysing the past trends from records and correlation drawn.

The strategies that could evolve are (Refer Exhibit 10.3).

i. Selling a product at the most competitive price for the purpose of gaining on the economy of scale, capturing market, increasing volume of sales, etc.
ii. Maximising the profits by selling at the highest possible price that buyers would pay to get the targeted market share.
iii. Making maximum profits by selling initially at a higher price and then crashing the prices to keep the competitors out of the race.

Exhibit 10.3 Strategic Options in Experience Curves



Application of the Experience Curve

We have recently witnessed the effect of the experience curve in electronics, computers, television, and other industries where, as the volumes grow, costs and hence prices decline. We have seen many companies going into oblivion due to the effect of the

experience curve. As competition grows, prices crash, supplies should therefore increase and hence the manufacturer should be able to supply to meet the hiked demands, thus requiring a close coordination and fast responsiveness within a company. Lowering of prices does not mean that the products should be substandard in quality.

The experience curve effect can be used to benefit only if the demand is elastic and those who do not rise to this occasion soon perish.

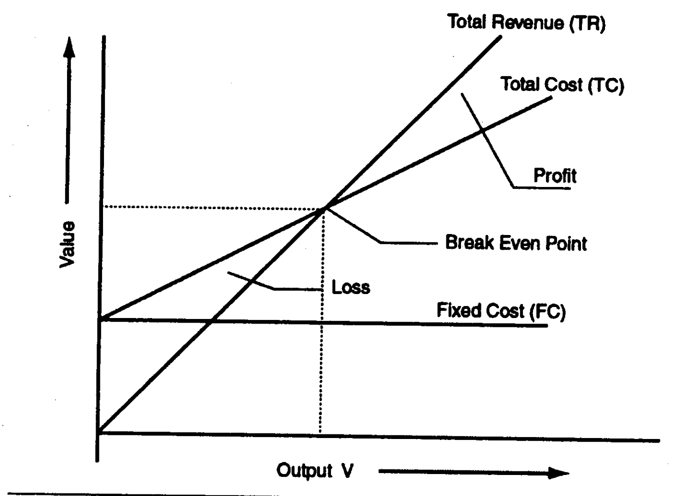
If demand is inelastic, the fall in price will not lead to proportionate rise in demand, and hence the experience curve effect cannot be used beneficially in such circumstances. When competition is very fierce, demand may not lower prices.

Experience curve may lead companies to work only efficiently and not effectively. There may be a general reluctance to go for introspection and do fundamental rethinking of technology, business process etc. and the likelihood of doing right things in different ways is considerably reduced.

BREAK-EVEN ANALYSIS

We know that costs play a very significant role in business. When a business is started, initial costs are incurred for acquiring assets like land, machinery, building, plant etc. The raw materials also cost the company. Growth and survival of a company largely depends on money that the company pays for its fixed costs and surplus it generates after meeting all expenses (Refer Exhibit 10.4).

Exhibit 10.4 Break-Even Curve



Allocation of costs to different heads depends on the volume of production. Cost per unit is high when volume of production is lower. The critical portion of strategising is decision with regard to fixed costs, variable costs, total revenues, profits, and

volume of production. We know that total cost consists of fixed costs that are constant and variable costs that are directly proportional to the volume of production.

Thus

Total Cost (TC) = Fixed costs (FC) + Variable costs (VC)

where V = Volume of production.

Total revenue (TR) = $P \times V$

where P = Price

At break-even point TR = TC

$$P \times V = FC + VC \times V$$

$$v = \frac{FC}{P - VC}$$

SENSITIVITY ANALYSIS

Sensitivity analysis is carried out to gauge the changes that take place due to price variation, fixed cost, and variable costs.

We know that increase in variable costs lowers profits and vice-versa. Similarly as the price increases, break-even point reduces and vice versa.

NON-LINEAR BREAK-EVEN ANALYSIS

A linear relationship between variable costs and volume of production rarely exists. In general, variable costs reduce as the volume of production goes up, but beyond a certain threshold value, the variable costs may again increase thus creating another break-even point. This may result in losses though greater market penetration is achieved.

In actual conditions variable costs and fixed costs both change and break-even curve may appear as shown in Exhibits 10.5 and 10.6.

Exhibit 10.5 Actual Break-Even Curve

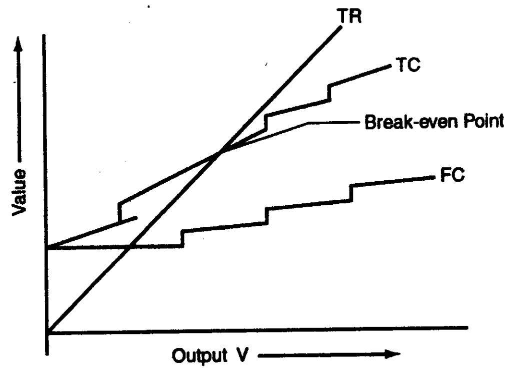
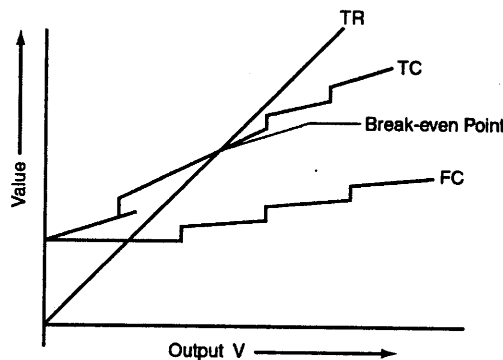


Exhibit 10.6 Non-Linear Break Even Curve



PORTFOLIO ANALYSIS

Management is all about deploying the resources in their best combination to create profits and to accomplish a set of objectives. Strategy manager is always in search of ways and means for optimising deployment of various resources. Usually a company is engaged in diverse activities and in many businesses, and operates in different markets with varying investments that bring in various returns in different degrees. The returns themselves keep on changing with different factors like competition, market scenario, customer preferences etc. in an industry. The job of the strategy manager is to draw a picture of all these happenings for better comprehension, and understanding various operational equations of cash flow, financial requirements, etc.

Depending on the results, the managers also have to learn to diversify and choose options from the available many alternatives for meeting immediate and future objectives. When a company has very complex and multitudes of operations, the problem becomes multidimensional and there are compelling needs to account for various dimensions and take decisions on resources, cash flow, financial requirements etc. The approach essentially has to be holistic rather than concentrating individually on each business. This multi-pronged approach is called portfolio analysis.

Keeping rate of return on investments are in the form of resources, the objective of a manager is to analyse the corporation as a whole, considering different businesses in which it is involved to make best use of resources to derive desired benefits. This kind of analysis is called as portfolio analysis, and is done to maximise the rate of returns by analysing the present resource allocation and continual evaluation for future implication and taking decisions on products and operations that require expansion, closure, or curtailment. A company that operates in an environment is faced by competitive strategies of other companies and hence portfolio analysis also takes into account the company's core competencies, resource allocation, and spectrum of characteristics of the industry.

Balancing of Corporation Portfolio

Portfolio analysis is done with a view to balance the investment of a corporation in different products, businesses, or industries. When there is a lot of diversification in investments in limited markets it is found to be very useful.

The balancing is to be done with regard to three basic aspects.

i. Cash flow requirements
ii. Development
iii. Risks involved

Cash Flow Requirements The cash flow patterns in various business is different in different stages and portfolio analysis attempts to balance the cash flow in each business such that they are in synchronism with the selected financial strategies of a company. Usually it is found that new businesses require additional cash flows although profits are also higher, whereas mature businesses require comparatively lower cash flows and are also relatively less profitable.

Development Innovation and product developments are a necessity for a company for its survival, growth, and profits generation. a company follow a product life cycle i.e. a product is created to satisfy a need of a customer, it matures, and finally declines. This is true for all the products and services of a company. A company cannot afford to develop a new product when some of its products are declining because it may not be in tune with the rate of changes. Hence a balance is to be struck in the development of products and services, their growth, maturing and decline, such that investments required in each category and returns are balanced. Thus the firm keeps on growing when its products are in their different stages of life cycle.

Risks One cannot operate in a totally risky environment or in a totally safe environment as both these extremes are only theoretical in nature. However, the objective of a company would be to reduce the risks if not eliminate them completely. Complete elimination of risks may be quite expensive and not desirable. Operating in a totally risk-free environment may lead to lower returns than expected. A company tries to balance investments and additional cash flows in different businesses such that risks are reduced and balanced in different products and services.

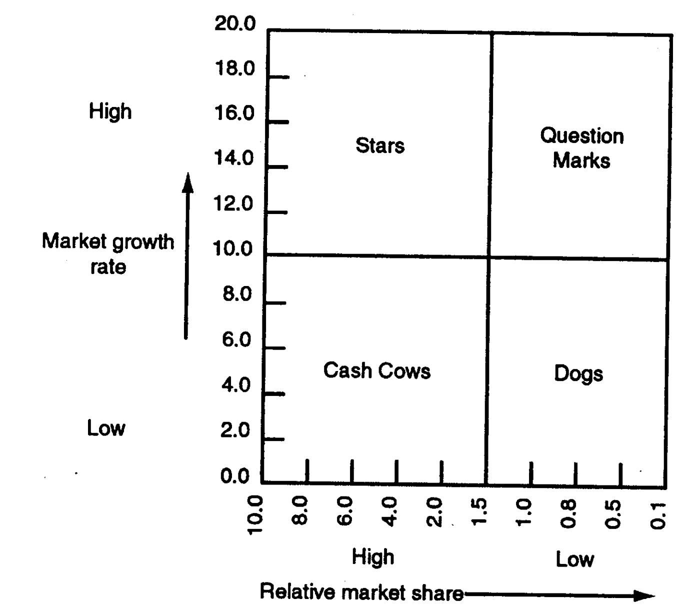
MATRIX ANALYSIS

The objective of developing matrices is to achieve successful diversifications, keeping corporate strategies in focus and optionally balance the resources for best possible returns.

Boston Consulting Group's Growth Share Matrix

This is a portfolio analysis where a two-by-two matrix is used, taking market growth rate and relative market share as axes (Refer Exhibit 10.7). It defines various segments as dogs, cows, stars, question marks in terms of cash flows. In each segment, bubbles are created having sizes proportional to the size of the business activity that may be expressed in terms of sales, assets, volumes, investments, etc.

Exhibit 10.7 BCG Growth Share Matrix



McKinsey Matrix

McKinsey Matrix is generally associated to General Electric and Shell companies and has three-by-three dimensions dividing the industry attractiveness and business strength in three categories viz. low, medium, and high. The barometers can be subjectively judged or may be calculated based on weighted average scores.

Matrix of Strategies Planning Institute

Profit impact of market strategy (PIMS) program of the strategic planning institute draws a comparison between profitability of a company with that of the average profitability of the industry to which the company belongs. The business average profitability of the industry is calculated by accounting the total relevant cross section and multidimensional regression relationships of various businesses in the industry.

Arthur D. Little Company Matrix

The life cycle stages and business strengths are used to create this matrix. The grids are classified as build, hold, harvest, and unpredictable return on investment.

BCG MATRIX

Boston Consulting Group, a management consultant company in the USA developed the growth share matrix approach.

As is evident from the exhibit 10.7, two variables are taken in this matrix as follows.

i. On the Y axis, annual market growth rate or market in which a SBU operates is taken. Strategic Business Unit (SBU) is a single business or collection of

related businesses that can be planned independent of the rest of the businesses of a company, has its own group of competitors, and is headed by a manager who is responsible for its growth and profitability.

ii. On the X-axis, the relative market share of SBU is taken. In some industries, the growth rates may be as high as 20 percent more whereas in others it may be lower. In this model, the highest growth rate of 20 percent was taken and therefore the cut-off point for deciding the high or low growth rates was taken as 10 percent.

The relative market share of a SBU that is indicated on the horizontal axis is in relation to that of the largest competitor. The relative market share is chosen with an assumption that the relative competitive position of a company would be proportional to the rate of cash generation. A firm that has a higher relative market share in comparison to a competitor signifies that it would have higher profit margins and would affect higher cash flows.

The philosophy of selection of rate of growth of industry is based on an assumption that in cases where rate of growth is higher it would lead to expansion of operation of participating companies. High growth rate opens up possibilities of reinvestment in business for further increasing rate of return on investments.

In an industry where growth rates are lower, profitable investments would be scarce and usually the increase in market share would come from the reduction in the market share of a competitor.

Developing BCG Matrix

Various steps in making a BCG matrix are as follows:

i. Fragment the total business activities of a company into SBUs.

ii For each of these SBUs, determine the growth rate of the market that is plotted on a linear scale.

iii. For each SBU, collect information on assets used and apportionate the relative size of business taking place within the company.

iv. For each SBU, the relative market shares are then determined and plotted on logarithmic scale.

v. On this matrix, the size of each business is plotted by representing it as a bubble. Radius of the bubble is given by :

$r = \sqrt{PR}$

where r = radius of the bubble

R = radius of the large circle, showing total company sales.

p = sales of product expressed in percentage of total sales.

The four quadrants are divided usually based on assumption that 10 percent of volume growth is the dividing line between high and low growth, and a relative market share of 1.5 times may separate question marks from stars. It must be noted that these demarkations are only approximate.

Quadrants of BCG Matrix (Refer Exhibits 10.8 And 10.9)

Cash cows SBUs lying in this quadrant are those that generate desired cash for a firm. In these cases, market virtually stops growing and the firm in question occupies a leading position. Sales people may have very little to do for products of this SBU due to brand preference. There is a consumer pull for these products. The low rate of growth of business in this quadrant signifies that the ploughing in of cash would not be required. Cows can be milked for cash. The cash generated from these SBUs can be used for R&D, converting the question marks into a star that will be discussed in the forthcoming paragraphs. More cash cows indicate sound financial health for the company. We find Colgate toothpaste, Lux soaps, Godrej refrigerators, etc., which fit into these segments.

Many companies avoid their products becoming dogs from cash cows whether through modifications or through relaunching them. To save Milkmaid from becoming a dog the company repositioned it as an item for preparing quick desserts thus avoiding it becoming a dog.

Exhibit 10.8 Cash-Flow Characteristics in BCG Matrix

Cash Use	Cash Collection: High	Cash Collection: Low
High	STARS Cash inflow or outflow	QUESTION MARKS Large cash outflow
Low	CASH COWS Large cash inflow	DOGS Cash inflows or outflows

Dogs The SBUs that have lost their glamour become dogs i.e. they not only lose market leadership but also their market that does not grow at high a rate. The lower market share signifies poor profits. Since growth rates are low, it would be unwise to invest in this SBU as investments required would be more than cash generated and there would be negative cash flow. The strategy suggested is to kill the dog that implies that the product has to be dropped from complete product range. For reasons not connected to finance, many such SBUs are allowed to operate under dog condition. The strategic solutions are liquidation or harvesting or divesting.

Exhibit 10.9 Matrix Showing SBU Type and Cash Inflow and Outflow

Strategic Business Unit	Cash In Flow	Cash Outflow
Cash Cows	More	Less
Star	More	More
Dogs	Less	Less
Question Mark	Less	More

Question Marks These are SBUs that are rubbing their shoulders in a high market growth area. Whenever a SBU is launched, it is in this phase of business. A company has to take a decision whether to continue in this area or withdraw from competitive markets. The decision in this regard can be taken, keeping in view corporate objectives, prevailing competition, and financial strength of a company. Due to high growth rate, requirements of cash flow is quite high, however, due to low market share, the cash generated is low. These SBUs are called as 'question marks' because they lead to questions on further investments for raising market share and profitability. The government policy, offering 'doles' to companies affects decision of companies as they may be allowed concessions in sales tax, income tax etc. Usually high expenditures are incurred on product development, royalties, dealer margins, and making changes in products to attract customers. Sales are usually low at this stage, as the consumers are not aware of the product.

Stars These are SBUs that have gained leadership in their market. This situation is acquired when question marks get converted to stars through strategic decision and implementation of strategies. This situation, although quite good as these are the bread winners, does not mean that these SBUs will bring in a lot of cash flow. A company may have to essentially invest to maintain its leadership. This is the zone where there would be many stiff competitors trying to dislodge the SBU through aggressive marketing, sales promotion, advertising, higher dealer margins etc. The competition also offers new products, with better features and at lower price coupled with discount schemes to buy now and pay later benefits. Hence the revenue generated is spent in maintaining the SBUs. Thus stars generate high profits and also offer best investment opportunities. The best strategy under these circumstances is to make the necessary investments and consolidate the company's position amongst competitors.

A brand of soap or lipstick of a leading multinational firm may enter cash cow quadrant in cities like Delhi, Mumbai, Bangalore, whereas it may remain in star quadrant in Bhopal, Indore etc. as a new improved product has a lot of customers in bigger cities compared to smaller cities.

Strategic Effects

Various corporations and companies, having a diverse port folio will have their SBUs spread in the four quadrants corresponding to each category. One of the foremost

objective of a company would be to maintain its competitive position in the cash cows with optimum investments. The surpluses that are generated in cash cows would be required to be reinvested into stars for maintaining their competitive position in case they are not self sufficient in cash flows. If there is more cash surplus, it requires to be invested in question mark SBUs to gain market leadership. The dogs can be usually considered to be weak segments and no new investments should be made in them.

The BCG Growth share matrix depicts the interaction of the industry growth characteristics with the company's market share (Refer Exhibit 10.10) and at the same time reflects the cash deployment needs. Thus, it is a visual aid used for comprehending inflow and outflow of cash. It must also be remembered that short life-cycle SBUs like some of the electronic products and very long life-cycle SBUs like bread and pizza manufacturing, soaps, tooth paste etc. may not truly follow the trends presented by BCG growth share matrix.

Exhibit 10.10 Strategic Positioning as per BCG Growth Share Matrix

Quadrant	Market Share	Profitability	Investment	Cash Flow
Stars	Hold or Increase	High	High	Zero or Negative
Question Marks	Increase or Harvest/Divest	Zero or Negative	Very High	Large Negative
Cash Cows	Hold	High	Low	Large Positive
Dogs	Harvest or Divest	Zero or Negative	Disinvest	Small Positive

BCG Growth Share Matrix and Time Dimension

BCG Growth share matrix can be developed at different times for a corporation. Various SBUs should be plotted in the Matrix at different points of time to examine the relative changes that have taken place in the four quadrants. This can be helpful in the study of the impact of strategies chosen at different points of time and the direction in which the organisation moves.

Pitfalls of BCG Growth Share Matrix

i. The BCG analysis is made on the basic assumption that profits depend on growth rate and market share, however, the attractiveness of an industry may not be reflected in its growth rate. Research shows that dogs can turn to cash cows with better management.

ii. It is quite difficult to determine the market share as it is dependent on the definition of business and the market. In complex business situations, where market interdependence is significant, assessing correct market share may be quite difficult.

iii. The synergy created due to the experience curve is neglected. Synergies can be created between dogs and question marks and star SBUs, leading to higher corporate profits.

iv. The human factor that can effectively or ineffectively manage the cash flow has not been considered in the matrix. Thus strategic options may not be practical at all in some situations.

v. It is recommended that if products are regrouped as per the manufacturing processes to account for economies of scale, it would be a better representation.

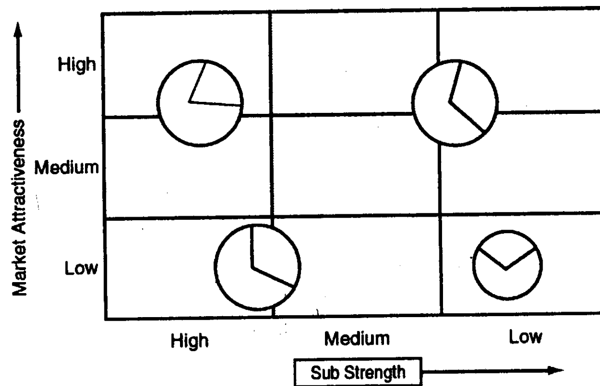
vi. There is a wide spread resentment in the use of words like dogs, cows, etc. and terms used in GE model, like build, hold, harvest have been found to have better appeal.

GE BUSINESS PLANNING GRID APPROACH (Refer Exhibit 10.11)

The GE's approach is an improvement over the BCG Model. In GE's model, the market attractiveness is related to the strength of SBUs that make it competitive in a given market. The market attractiveness depends on various factor-like state of competition, return on investment, rate of technological growth, government policy, market size, market growth rate, entry conditions, and social factors, cyclic nature of business etc. Various factors are either subjectively judged or objectively computed, taking weightage factors and arrive at industry attractiveness index.

Strength of any SBU depends on various factors viz. market share, growth rate, location, distribution, R&D, finance, distribution, product quality, brand image, production capacity etc. The analysis is done on a five-point scale and categorisation as strong, average, and weak segments is made. The industry attractiveness is plotted on Y-axis and SBU's strengths on X-axis as shown.

Exhibit 10.11 Industry Attractiveness and SBU Strength Matrix



For each business in the total portfolio, a circle depicting the size of the industry is drawn and the circle is shaded to show the market share of the company.

This model suggests a screen of three colours and the SBUs may fall into any of these coloured screens.

i. If a SBU falls where industry attractiveness and competitive position is low, a no-growth i.e., stop strategy is adopted and it appears on the red screen. It is expected that earnings may be there but no investments are to be made.

ii. In case industry attractiveness is medium and competitive position is high, a growth strategy is evolved, requiring investments and appears on the green screen.

iii. Yellow screen points out to either growth or to no-growth strategy to choose and SBUs that have high industry attractiveness and low competitive position appear on this screen.

DIRECTIONAL POLICY MATRIX OF SHELL

Refer Exhibit 10.12 that shows Directional Policy Matrix of the Shell. The matrix is self explanatory.

OTHER MODELS AND UTILITY OF MATRICES

Almost all the matrices are based on similar principles in the sense that most of the portfolio analysis tend to correlate profitability with market share. The portfolio analysis does not have much applicability where market share is not critical, capital withdrawal is difficult, value added is low, business is cyclic etc. These models must be used along with other analysis techniques to derive meaningful strategies.

SWOT ANALYSIS

Strength and weakness are relative terms. Resources available in plenty may appear to be a strength but if not utilised may cease to be a strength. Corporate strength is a competitive advantage and through other competencies, a company may exert change mechanisms in a industry A corporate weakness refers to constraints or hindrances that tend to stop movement of a company in certain directions decided as strategic directions for the company and also inhibit a company to achieve core competencies.

Criteria

Various criteria can be used to define whether a specific corporate capability is a weakness or a strength.

In historical criteria analysis, a specific characteristic is seen in the light of the history and past performance and is evaluated based on certain indices like sales, profits, market share etc. to determine whether it had been a strength or a weakness.

In normative criteria a particular characteristic is seen in the light of what it ought to be from the point of view of experts, based on which norms can be developed to categorise it as a weakness or a strength.

In competition equality criteria, it is assumed that the characteristic selected should be at least at par with the competitors and based on a comparative yardstick it may be considered as a weakness or a strength.

Exhibit 10.12 Directional Policy Matrix of Shell

Industry Attractiveness ↑ / Competitive Position →	Strong	Average	Weak
Attractive	Strategy - Leader Business prospects - High	Strategy - Make effort Business prospects - High	Strategy - Select products for high growth rate in future Business prospects - High
Average	Strategy - Growth Business prospects - Average	Strategy - Generate cash with minimum new resources Business prospects - Average	Strategy - Withdrawal in phased manner Business prospects - Low
Unattractive	Strategy - Generate cash for expansion Business prospects - Strong	Strategy - Withdrawal in phased manner Business prospects - Low	Strategy - Liquidation Business prospects - Low

Measurement of Strengths

The strengths and weakness occur in various forms and degrees. Various methods are used to give objectivity to measurement of weaknesses and strengths that are discussed below:

i. A list of attributes of a company may be prepared. Each of these attributes or characteristics may contribute to the growth of the company through distinctive competitive advantage due to a definite degree of presence of an attribute that would indicate the extent to which a specific attribute is a strength or weakness. Usually, a unit of measurement is quite difficult. However, a scale must be chosen and classifications made.
ii. Statements on health care education, training etc. of their employers or statements reflecting leadership, innovation, R&D etc. show that a company values these attributes as their strengths.
iii. For certain statements like shared values, congenial climate and culture, managerial competence, initiative, human relationship skills etc., no specificity can be attached and it may be difficult to measure their efficiency or effectiveness and only a subjective evaluation of these factors can be made.
iv. It is easier to measure the functions at SBU level like market share, cash flow, finances, productivity of systems etc.

Format for Measurement of Strengths

Various methods and systems have been developed for measuring strengths and weaknesses. In the following paragraphs a few methods are suggested:

Attribute Checklist Exhaustive list of attributes have been prepared by different consultants. These generalised lists of attributes may not be applicable to a specific company, and individual companies should prepare their own attribute lists through brainstorming, discussion etc. in different areas like finance, marketing, personnel, production, technology, social etc. (Refer Exhibit 10.13).

Exhibit 10.13 Illustrative List of External Factors for Industry Attractiveness Analysis

	Factors	Rating				
		1	2	3	4	5
Market	Market share					
	Market expansion rates					
	Sensitivity					
	Business cycle periods					
	Assumed markets					
	Profitability					
	Sensitivity to product differentiation					
	Number of market place					
	Share rate fluctuations					

Competition	Indensity Nature Rules of business Barriers to new entry Ease of exit Capacity utilisation Obsolescence rate Fluctuations in levels Growth rate
Economic	Globalisation and Liberalisation Inflation Currency Position Wage levels Raw material rates Human resource availability Regulations and laws Taxation Government policies
Technological	Patents R & D expenditures Complexity Rate of technology growth
Social	Ethics Ecological effects Law of consumer protection Education Demography Unionism Adaptability Standard of living Wage pattern

Conceptual approach The conceptual approach divides an organisation into major categories viz. finance, operation, management, technology etc. and suggests to list various key factors that contribute to success or failure of a company. Some authors suggest a format wherein three categories viz. management, operations, finance are suggested. The broad functions are further fragmented to include detailed issues like strategic planning process, systems, culture, capital structure, working capital, productivity, etc. The purpose is to highlight their appraisal and also redeployment. In case of finance dimension, the financial analysis may indicate only symptoms and not cause-and-effect relationship diagrams. Similarly in operations category, business processes to convert an offer into an order, to add value to materials, is done at certain costs and within agreed schedules, and computations to assess effectiveness of production systems and benchmarking them with competitors, would reveal whether in a specific area a company is weak or strong. Various audits can be planned and

organisational strengths measured and evaluated through these audits and course corrections done, if required.

Profile of strengths and weakness Based on the above analysis, strengths and weaknesses can be presented in the form of a profile. The objective of preparing a profile is to present a consolidated data to strategist, which is ranked and thus critical factors identified. Usually a code of zero, showing neutral, + (plus) showing strength and – (minus) showing weakness is followed.

Grid method In this method, a grid is created for different areas like general management, R&D, operations, marketing, finance etc. taken on Y-axis and various factors like facilities, equipment, trained manpower, infrastructure, experience on X-axis. Each attribute is attached with efficiency or effectiveness symbol as the case may be.

7 'S' framework The profile of a company can be drawn on the basis of 7 's' framework that consist of strategy, structure, systems, shared values, skills, style, staff on the Y-axis, and functions viz. marketing, finance, human resources, production etc. on the X-axis. The factors of the 7 's' framework will depend on the level at which this exercise is being done.

Process of Identification of Strengths and Weaknesses

The methodology consists of the following alternatives.

Questioning A survey may be conducted and the perception of executives of a company about strengths and weaknesses in different functional areas collected. Outside respondents, like suppliers, customers, dealers etc. may also be questioned and data collected for analysis.

Observations Observations on behaviour, attitudes, reactions of executives, suppliers, customers etc. on various functions of an organisation may be made and data collected.

Record examination The record of performance based on various factors like speed of operations, quality, skills, market behaviour etc. may be collected and analysed.

Evaluation of Threats and Opportunities

The environment of a business presents various opportunities and threats to an organisation, and being aware of them is vital for any company. A number of factors and forces combine in various ratios to form opportunities or threats.

A threat is a challenge posed by an unfavourable trend or development, emerging from environment that may lead to the down slide of a company. An opportunity, on the other hand is a development in the environment that would strengthen a company's position if properly availed by the company.

Environment can be classified as mega or micro. The mega environment is generally referred to as total national or international environment, whereas micro environment

is quite immediate and affects the competition, suppliers, customers etc. Environment can also be viewed as relevant or remote. Analysis of relevant environment leads to understanding of existence of opportunities, sources of threats, and an indication of key success factors. An environment that consists of suppliers, marketing intermediaries, customers, users etc. require detailed analysis for understanding of threats and opportunities.

Impact of Opportunities

Every company is keenly interested to know the opportunities that exist for it that can be exploited for maximum benefits. Companies can adopt various methodologies for measuring the impact of opportunities and also assess when an opportunity becomes a threat.

Developing Opportunity and Threat Matrix

The opportunities and threats can be ranked as per their impact and occurrence and can be plotted as shown in Exhibits 10.14 and 10.15. The impact or occurrence can be evaluated on a five-point scale. The probability of occurrence can be decided, based on past records, questioning, model studies, surveys, and study of forecasts etc. A continual trend analysis of various opportunities and threats can also be carried out.

Exhibit 10.14 Opportunity Matrix

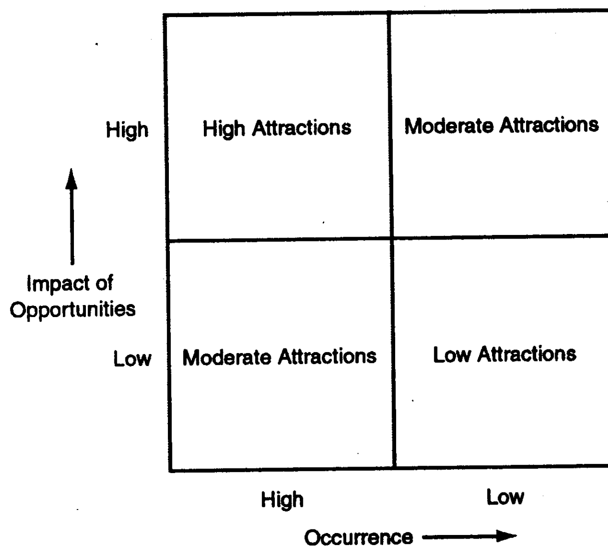
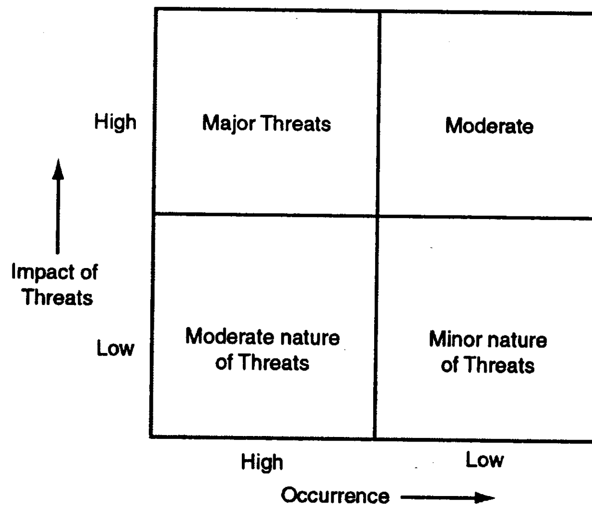


Exhibit 10.15 Threat Matrix



Matching of SWOT Analysis and Strategies

The objective of SWOT analysis is identification of SWOT profile of a company and narrowing down choice of alternatives of strategies. SWOT analysis can be used in the following ways.

i. SWOT analysis develops a framework, based on logic that helps in systematic and step-by-step discussion of a business situation, alternative strategies, and selection of a strategy. A systematic SWOT analysis, crosses all the functions of a company and thus covers all the aspects of an organisation.

ii. Based on SWOT analysis, it is possible to compare the external threats and opportunities faced by a company with internal key strengths and weaknesses in an organised way.

Quadrant 1

This is the most favourable situation for a company, where opportunities exist and also the matching strengths, hence aggressive strategy may be used to culminate in the growth of a company.

Quadrant 2

The strengths are not in tune with the opportunities in this quadrant, hence a company may decide for diversifying. A company may choose to use its current strengths to create new opportunities in a different product or market.

Quadrant 3

In this quadrant, a company has many opportunities but is handicapped with many weaknesses. The company may choose to eliminate the internal weaknesses through a turn-around strategy.

Quadrant 4

This is the least favaourable quadrant. A company in this quadrant has both internal weakness coupled with threats in those specific areas. A company may adopt strategies to redeploy resources in favourable quadrants.

The objective of the above presentation is not to enclose companies in various quadrants but it is to pictorially present overall company position. It must be appreciated that such positioning is not static and continuously changes. Usually companies face threats and also opportunities and the approach of a strategist may be to exploit opportunities with use of strength i.e., deal from a position of strength or work to overcome all the weaknesses and work to make best use of the opportunities present in the environment.

Developing Matrix for Grand Strategy

A matrix as shown in Exhibit 10.16 can be used to develop

i. the basic purpose of the grand strategy chosen,
ii. the choice between internal or external or both resources for the purpose of growth and profitability.

Thus the selection of a strategy is based on matching the internal or external growth, with the objective of overcoming weakness or maximising strengths.

Exhibit 10.16 Matrix for Grand Strategies

Overcoming Weakness	Quadrant 3 - Liquidation - Divestitute	Quadrant 1 - Integration in Vertical Direction - Diversification in Unrelated Areas
Concentrating on Strength	Quadrant 4 - Concentration Strategy - Developing Markets, Products - Innovation etc.	Quadrant 2 - Integrating Horizantally - Diversification in Related Areas
	Use of Internal Resources	Use of External Resources

Quadrant 1

The SBUs in this quadrant have very narrow choices and hence are committed to specific businesses that have hardly any growth prospects. The SBUs operate in high

risk zone. They are left with the choice of integrating vertically to reduce risks on the upstream or downstream. Diversifying into unrelated business may be another alternative, However, managers should be cautious against acquiring more weakness by spending a huge amount of money and time.

Quadrant 2

SBUs that divert their resources from one business to another fall into this category. There may be a deliberate effort to prune the current business activity or an effort to maintain basic mission but develop competitive advantage in some other area. It may adopt retrenchment to streamline its operation, eliminate inefficiencies, and non-value adding operations. If expenditures for these are high, they may also decide to liquidate.

Quadrant 3

There are SBUs that believe in strengthening themselves through expansion of market share or thrive on economics of scale or use some other means for enhancing their internal strength. They fall under this category and they usually prefer concentration approach. The investments are ploughed back to fortify strengths.

Quadrant 4

In this quadrant, companies that expand their business horizontally to gain leverage on output capability and use management capabilities in converting the acquired facilities into its competitive advantage, are graded. The competitive advantage may culminate from concentric diversification or from a joint venture.

GRAND STRATEGY CLUSTERS

Thompson and Strickland modified BCG growth share portfolio matrix and chose the following two dimensions for defining a business situation (Refer Exhibit 10.17).

Exhibit 10.17 Grand Strategy Clusters

Alternative Technologies

High Growth Rate	EF Quadrant 3 - Redine Concentration - Integrate Horizantally - Liquidation - Divestitute	Quadrant 1 - Concentration - Integrate Vertically - Diversifications
Low Growth Rate	Quadrant 3 - Turn Around - Diversification - Divestitute - Liquidation	Quadrant 4 - Diversification - Joint Ventures
	Weak Competition	Strong Competition

i. Growth rate of general market
ii. Competitive position of a company in that market. Based on the above, SBUs can be classified into the following broad categories :
   - Strong position in a growing market.
   - Weak position in a growing market.
   - Strong position in a weak-growth market.
   - Weak position in a weak-growth market.

Highlights of SBUs in different quadrants are as follows :

Quadrant 1

i. SBUs can continue to concentrate and it may not be worthwhile to switch over to some other strategies.
ii. Vertical integration must be resorted to when current concentration strategy demands are not met by resources of business.
iii. SBUs may consider diversification in related areas to eliminate risks to concentration.

Quadrant 2

i. SBUs in this quadrant must reconsider their approach to market and reassess their competitive capability, which may result in revamping of their concentration strategy.
ii. In case SBUs lack core competencies or are unable to derive benefits from economics of scale, they may go for horizontal integration.
iii. In the worst case, liquidation may be resorted to.

Quadrant 3

i. The SBUs in this quadrant face slow market growth and comparatively weak competitive position and they tend to withdraw their resources.
ii. Withdrawal of resource is coupled with retrenchment to create funds that can be redeployed to enhance assets or used to motivate people to increase efficiency.
iii. The resources may be utilised in the expansion of profitable SBUs or in diversification.
iv. The final option may be liquidation.

Quadrant 4

i. SBUs in this quadrant have strength that can help them to diversify into more profitable businesses.
ii. Concentric diversifications can be better for them due to their proven ability and strength in business.
iii. They may also go for joint ventures.
iv. They have the final option in going for diversification in unrelated areas where they increase their risks.

BEHAVIOURAL DIMENSIONS IN STRATEGIC CHOICE

Making a clear strategic choice is quite difficult and it is hardly the case that clear and simple strategies will be decided. There is a lot of subjective element in taking a decision and several viable alternatives exist and choosing the best suited for a company in given circumstances is affected by several other factors that are quite pertinent. Some of these dimensions are discussed below:

Effect of Past Strategy

We are influenced by past events, trends, analysis, behaviour, strategies etc. The current or future based on the past strategies that have created the present has consumed time, money, and other resources to give a definite shape to the present. Hence, it is quite natural for strategy makers to do something that would be parallel to the past. This thinking is present in the fabric of a company and is reinforced by managers, supervisors, and workers down the line. Old habits die hard. People tend to build their security of survival around the past practices, ways of doing things, and strategies. The times change very fast and business environment undergoes changes and presents new situations, challenges, threats etc. It is often found that new situations are dealt-with in old ways and people find solid reasons to defend old strategies. However, soon such attitude starts reflecting in the company's performance and often at such junctures, the management of a company is changed to bring in fresh air of innovative thinking.

Influence of External Dependence

We have discussed in detail how the environmental factors like technology, social, political, competitive etc. affect the business of a company. The influence of environmental factors on strategic choices cannot be ignored. A strategic choice made by a company is guided by its external factors, which may arise due to customers, suppliers, regulators, business drivers, and stakeholders, etc.

The flexibility of a firm to make strategic choices reduce as its dependency on external factors increases. Sometimes the representative of external factors that are significant may also participate in selection of strategic choice. Sometimes companies take up joint projects with customers and vendors to evolve strategies that would help them to be competitive (Refer Exhibit 10.18).

Exhibit 10.18 Need for Strategic Orientation

It is a matter of joy for the garment industry because when all Indian Exports have shown a downtrend, the garment export has registered a growth of 10 percent in 1997–1998 over the immediate past year. The market for Indian companies is in over 100 countries consisting of US, Europe, Middle east etc., however, the shares is only 2 percent in the world market. New competitors like Indonesia, Thailand, Bangladesh etc. are fast emerging in addition to the present giants like China, Hong Kong, and Turkey.

Various challenges being faced by the Indian companies are the planning 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 development etc.

The garment industry has been facing many problems viz. inconsistent availability of good quality of fabric, non-availability of packing material, poor transport infrastructure, unstructured and unorganized 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.

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

Risk Taking Capability

The anticipated perils of selecting a strategy influences choice. Companies usually want to operate in a risk-free environment. We also know, generally as the risk increases, potential rate of returns, if they occur, are also quite high that makes risk taking attractive. Nevertheless, managers try to reduce the risks to a minimum through meticulous planning. The high risks also result in expansion of a number of alternative strategic choices. Where risks are low, choices of alternatives are small and hence growth rates are also slower. Managers, who can take risks, prefer opportunistic strategies. Risk averse managers are satisfied with lower returns and want to play safe. Usually in volatile industries, one of the core competency of managers is to take risks and exploit opportunities coming their way and hence they have a wider choice of strategies. A firm that has just entered into business usually operates in higher risks compared to those firms that have been already in the field. Hence comparatively new firms have much wider choice of strategies. Managers who have an inclination towards taking risks have higher pay off due to selection of vigorously offensive strategies and they value innovation, core competencies, and competitive edge. The managers choosing safe strategies are defensive and work towards minmising weaknesses and corresponding threats and do not rely on uncertainties that crop up due to innovation (Refer Exhibit 10.19).

The above is only a comparison of risk taking and risk averse approach and to draw a conclusion about an approach being good or bad may not be correct. The purpose is to understand influence of risk taking on various strategic choices available to managers.

Exhibit 10.19 Euro Effect

Single currency should make life easier and also lead to fall in prices of companies doing business in Europe due to the birth of the Euro. The European market and its predecessor, common markets that 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 from the beginning. In the near future, the Euro would create pressure for a global currency as the two big rival currencies viz., dollar and yen, in part, have created turmoils in foreign exchange markets. It is expected that the dollar and Euro will become more volatile, creating bad times for businesses. To limit fluctuations within the Europeans countries, they have locked the business in a single currency.

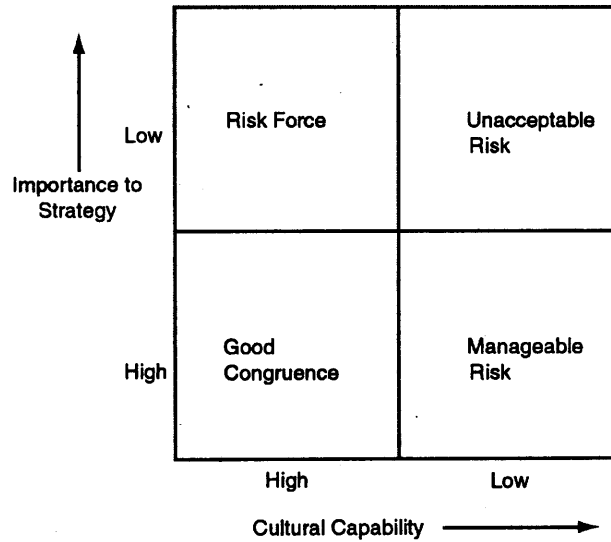
Source: V. Bala Swaminathan, "Giving Dollar A Run", *Industrial Economists* 15–29 January 1999.

Influence of Culture and Power Relationships

Every organisation has a culture that is based on values that a firm pursues. These are specific to an organisation and include factors like corporate image, quality of decision making, perception about company, and availability of opportunities to the employees to take challenges, working conditions, etc. The strategies chosen must account for these factors. The real value of organisational and employee characteristics hinge on creating of conducive environment for strategy selection and implementation (Refer Exhibit 10.20).

In most of the organisations, there exist many power relationships emerging from various influential groups present in organisations. Frequently the selection of strategies in an organisation is governed by these power equations rather than using other analytical or judgemental techniques. The CEO of a company exercises a lot of influence and plays a major role in the selection of a strategy. The group usually follows the CEO and gives a nod to whatever choices he makes. In very large firms, clusters of power are formed. Coalitions are also formed for mutual benefits of these power groups. Managers who are part of these coalitions support or oppose certain strategies. There are some coalitions that are strong and there is some bargaining that takes place amongst the weak and strong coalitions on various strategic choices.

Exhibit 10.20 Cultural Capability



The challenge that a strategic manager faces is of managing these coalitions and identifying strategic choices that would benefit a company. It is vital for a strategy manager to clearly understand these political biases and manage to avoid dysfunctional bias.

Organisational politics is a necessary part of some organisations and there is no point in calling it as good or bad. The prudence lies in accommodating them and managing them most effectively to meet organisational objectives. It is the duty of strategy managers to realistically recognise the power of coalitions and invite more commitment from them to arrive at workable solutions. This exercise may take a little more time, but it may be worth it.

Considerations of Time

An organisation faces many opportunities and also anticipates many of them in future. Integration of all the functional plans and strategies is dependent on the timing of selection and implementation of strategies with effective dove-tailing of various plans. The time element has considerable effect on choice of strategy. If strategies are not chosen in proper time perspective, they may be inopportune and may become obsolete.

A good, thought-out strategy may be disastrous if timing of decision or implementation is not correct. Every decision requires some lead time and any delays in taking timely decision on these resources may make the choice of strategies meaningless. The strategic choices are often dependent on the management's understanding of the time horizon and the lead time required for implementing the strategies. The pay offs and the breakeven points are also tied with time dimensions.

Reaction of Competitors

As soon as strategic decisions are taken in a company, the competitors start reacting to strategic choices as soon as they sense them. Hence while taking strategic decisions, the strategy manager must assess the likely reactions of the competitors. In case a company is going for joint ventures, the competitor may react through a compatible strategy to counter balance the strength gained. Similarly, if a company adopts an aggressive strategy to challenge the key competitor, it would expect a more aggressive reaction from the competitors, and the company must have enough resilience to absorb the probable impact.

Accounting for Contingencies

The future is quite uncertain. There may be a change in government, policies of government, customer preference, market conditions due to a war, financial, and economic conditions may go into an upswing or there may be a major technological breakthrough, leading to contigencies of different kinds. Companies have to essentially build margins in their strategies for unforeseen happenings in the business environment. These changes may not be usually in tune with forecasts and Assumptions, giving rise to contingencies. The contingencies may be positive or negative. To face negative contingencies, companies may adopt a contingency approach in strategic choice. The field force analysis is made and negative contingencies are defined. Managers prepare for meeting these contigencies by developing alternatives. In case of a strike, a company may decide to get the goods manufactured from an outside source as done by many companies during periods of unrest. For contingency approach to be successful in making choices for strategy, flexible organisational structures have been found to be responsive to cater to the emergencies. Development of three scenarios of business viz. pessimistic, optimum, and optimistic also prepares managers to meet contingencies. A model of contingencies, based on contingency planning process can be developed and specific steps of identifying contingent events, identifying trigger points, and developing strategies to meet contingencies can be developed by managers to aid the decision-making process.

CHAPTER

11

OPERATIONALISING AND IMPLEMENTING STRATEGIES

We have discussed the process of selection of strategies. Once a strategy or a set of strategies is finalised the next step is to implement the strategy in the previous chapter. The implementation of new strategies is obviously for growth and development of an organisation and hence the process may also be called as corporate development or reorientation. The key requirement for implementing the strategies is deployment of resources. Resources can be of any type like man-power, money, time, building, road etc. The strategies which have been chosen for implementation would need some resources for them to be successfully implemented. The resources may be altogether new or may be redeployed from the existing resources of a company. There are other aspects like search for approriate technology and the management of implementation of strategies. Success of any strategy depends, to a large extent, on its implementation. This aspect of strategic management has been experienced in several industries and has been emphasised by various management experts.

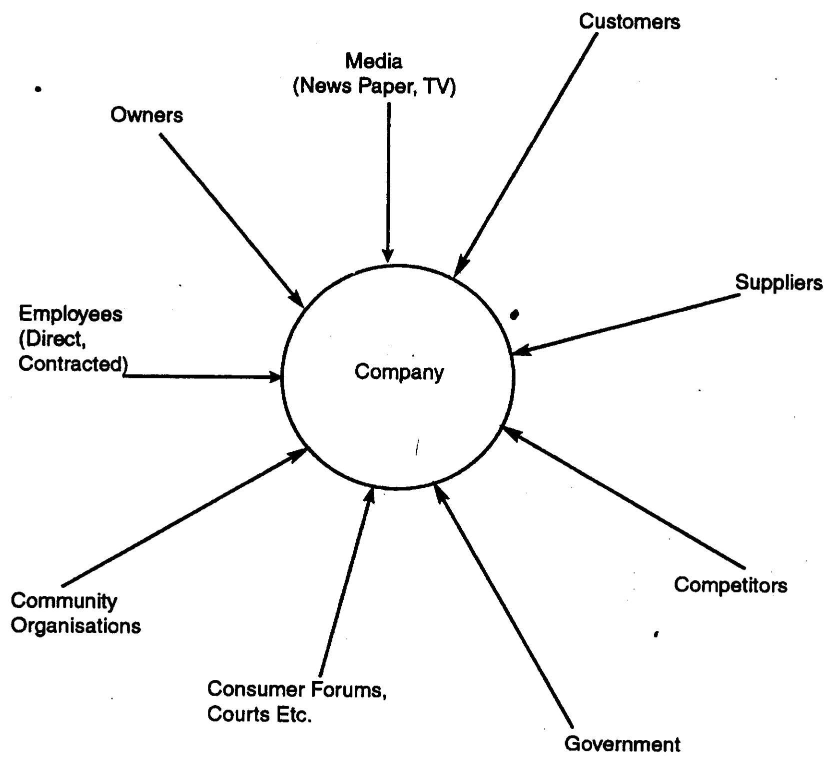
The corporate development is a very complex task because it involves various aspects like vision, mission, policy, structure, strategy, systems, markets, competition, and the total frame work of corporate development demands proper dovetailing of all these factors as all these factors are interdependent. Slackness or failure in any one of the aspects may work out to be very costly for any corporation.

The development process is basically a change process. The change is usually very painful and is resisted by all concerned. The status quo may not be safe and conducive for growth, but still people do not want change due to mental blocks which arise out of habits, culture, fears, security, etc. The change also requires people to acquire new skills, adapt to new changes in environment, systems, and may be new people.

The implementation and operationalising of strategies cannot be viewed as a discrete and separate step. The process starts rolling as soon as the strategies start

taking shape. The analysis and evaluation of strategies is also done on the premise to operationalise them. The choice of strategy is often constrained by the existing structures, systems, policies etc. and the success depends on how well a company can manage to alter them, if required. Any organisation in this era cannot afford to be only inward looking due to fast pace of changes that we are witnessing. The organisations will have to open up and see what various business drivers require from a company (Refer Exhibit 11.1) and accordingly the organisations will have be proactive or reactive or as they choose to be. Before we go into details of process of operationalising strategies, let us consider the single most important factor in a company which binds together the entire organisation and gives a purpose to it for its existence i.e. objectives.

Exhibit 11.1 Requirements from Various Business Drivers



OBJECTIVES

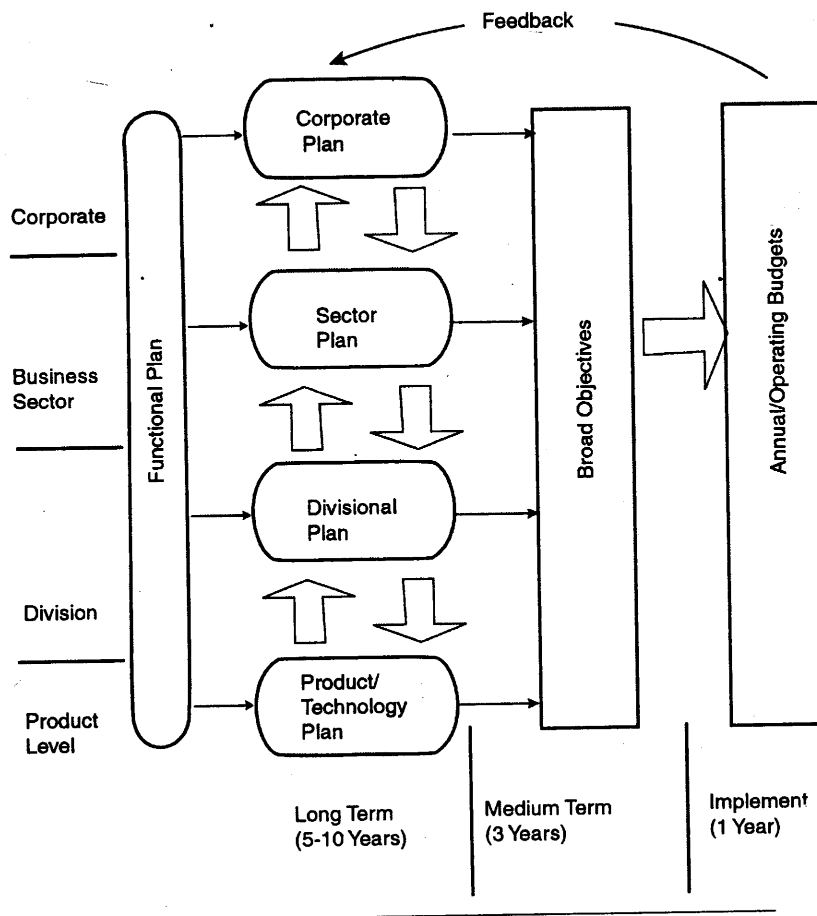
Every company has a vision of its future based on which it develops long-term objectives. The long-term objectives which a company decides for achieving are accomplished annually in a step-by-step fashion.

ANNUAL OBJECTIVES

Annual objectives are detailed objectives which emerge from long-range objectives of an organisation and are related to budgets and plans of that specific year. A clear annual objective helps in implementation of strategies more effectively.

Annual objectives must be related to the long-range objectives and also to the strategies, and all these must be in tune with each other. If annual objective are achieved then a part of long-range objectives is automatically accomplished. The non-accomplishment of annual objectives trigger off an alert to the top management with regard to chosen strategies (Refer Exhibit 11.2).

Exhibit 11.2 Result of Non-accomplishment of Annual Objectives



Characteristics of Annual Objectives

Annual objectives are specific and measurable. Some additional characteristics of annual objectives are as follows:

Long-range objectives The long-term objectives such as market share, ROI, Return on equity (ROE), entry into new markets etc. are fragmented into measurable units based on budgets of that specific year. Hence annual objective should be linked to one or more long-range objectives.

Basically, long-term objectives operate in a time frame of four to five years unlike annual objectives which are for that particular year. Hence long-term objectives focus on future and annual objectives focus on the functional achievements of the company for one year. (Refer Exhibit 11.3 for growth plans of a typical company).

Long-term objectives are not quantified and not directly linked to functional areas, hence annual objectives which are specific and quantified are easily measurable due to data generated in a company.

Integrated and coordinated objectives The objectives must be interwoven into the very fabric of organisational working systems. In several large companies it is found that the objectives of various functional groups such as manufacturing, design, marketing, quality control, and despatch etc. conflict with each other on certain dimensions, thus accelerating conflict, confusion, and chaos, leading to failures.

Implementation and operationalisation of strategies depends on coordination and integration of objectives of various functional groups such that energy from each of the functional groups is concentrated towards meeting the organisational annual objectives. In case of conflicts, these need to be sorted out through participation of all concerned to resolve the differences.

Consistent objectives Every organisation has many functional groups and each functional group has managers at various levels. The managers at each level in these functional groups may develop their own objectives which may not be consistent with the overall strategies and objectives, thus making the total effort dysfunctional. Each annual objective at each level should spell out what, when, and how dimensions, and also the method of measurement should be clearly specified and known. This would avoid misunderstanding and would introduce consistency in purpose and direction. Thus a blue print of methodology of accomplishing the laid down objectives must be made and a matching system evolved for measurement.

Measurable objectives Non-measurable annual objectives introduce ambiguity, hence an effort should be made to lay down, direct, or indirect measurability of objectives, which also helps in implementation. It is necessary that all concerned should agree for the same yard stick for measurement. The measurement criteria should be selected, based on the underlying objective to make measurements meaningful.

Exhibit 11.3 Corporate Plan: Process Comparison

1974 PLAN	1982 PLAN	1985 PLAN	1988 PLAN
(1974–80)	(1981–90)	(1985–90)	(1990–2000)
A Small group of top executives formulated the plan and it was a top down process	Top Management laid down guidelines	Updation done taking into account VII five year plan	Top down guidelines and bottom-up approach for plan preparation
Broad directions only and no figure work	Taskforces formed with a cross section of people from MFG. DIV. & CORP. Office to draw up divisional plans	Yearwise projections made upto 1989–90	Product managers the basis for product Strategies
Leadership provided by top executives at corporate office	Consolidation of these into a corporate plan at corporate level.	Attempt at defining functional plans	Leadership provided by units heads in offining the divisional plans
	Growth perspective document containing projection for 1984–85 and 1989–90.	Leadership provided by unit heads in defining unit strategies as well as corporate strategies	Detailed functional plans
	Bottom-up approach adopted for detailing		Yearwise details for 1990–95 and a one time projection for 1999–2000
	Leadership provided by unit heads in divisional plans		Participative and interactive exercise
			Number of iterations many
			Resources requirements like investment, manpower, needs etc. worked out independently

Prioritised objectives Objectives should be ranked depending on their impact on strategies. Time is a very important dimension in annual objectives and if objectives are not achieved within the specified time limit, then other activities may be thrown out of synchronism. Priorities are usually set by ranking the objectives through assigning of weightages and are classified into three basic categories signifying top, medium, and low priority.

Advantages of Setting Annual Objectives

Following are some of the advantages of setting annual objectives.

i. These provide tangible growth targets.
ii. These give focus to growth direction.
iii. These give a role clarity to managers at various levels.
iv. These help to mobilise people is direction of growth and invite their participation.
v. These give opportunity for participation at all levels thus unifying the functional groups for targets.
vi. These provide a basis for strategic control.
vii. These provide motivation for employees to contribute in organisational and their own growth.
viii. These provide challenge to functional groups.
ix. These clarify the role to be played by each employee.
x. These act as a tool to operationalise the strategies.

FUNCTIONAL STRATEGIES

A functional strategy is essentially a strategy confined to a particular functional group of company like marketing, production, sales, etc. and detail out blue print of grand strategies. These translate the grand strategies decided at corporate level into specific action plans for each function within a company. The functional strategies must be coordinated at company level and must support the grand strategies. These are specific to functions of the organisation and provide specific guidelines for each business. There are some basic differences between business and functional strategies as discussed below.

1. The functional strategies are for comparatively shorter periods whereas the business strategies are for longer periods of time. Shorter time frame for functional strategies enables managers to focus attention on immediate needs of business. Shorter time frame also enables managers to make course correction to accomplish long-term objectives through business strategies.
2. A functional strategy is comparatively more specific, clear, and objective compared to the generalised nature of business strategies. The functional strategies specifically answer the question how for a specific functional group for achieving the set targets. The specificity introduces higher success factor in operationalising for accomplishment of objectives.

3. The level of participation in functional and business strategies is quite different. Business-level strategies are chosen by top management whereas functional strategies are given shape by managers who are responsible for each function of an organisational unit. Top management establishes long-term objectives whereas functional managers establish annual objectives.

Since functional strategies are developed by the functional heads through participation of other managers, successful implementation and operationalising of strategies is simpler due to the onus of the managers involved.

FUNCTIONAL STRATEGIES IN KEY AREAS

The key decision variables in each functional area are different. Further, in each functional area, different variables assume different importance during varying business situations.

Marketing

We can fragment the total marketing function in various components like market research, price, market segments, market place, sales, etc. and a company designs strategies in each of these areas by asking specific questions and searching for their answers. Marketing function, for ease of understanding has been broadly divided into following categories (Refer Exhibit 11.4.).

Products are a bundle of functions. When a customer buys a product, he in fact buys certain functions and if a product does not perform the expected functions at the desired level and with desired reliability, it is rendered useless or it is said to have poor quality of performance. Functional manager in marketing research makes strategies to understand the apparent and intrinsic requirements of the customer and accordingly offers products and services.

The functional managers also focus on product attributes due to which it sells and try to enhance product features by either designing the product at the same cost and enhanced functions or at lower costs with same functions or with a mix of the two. From a variety of products, which forms the total range of products, there are certain products which are emphasised by the functional managers due to several factors viz, product leadership, cost, profit margin, product attractiveness, packaging, warranty, accessories etc.

Exhibit 11.4 Strategic Directions for 90's

- Enhancing competitive position in the global context to stimulate growth in both domestic and international markets.
- Apart from efforts in Existing and New Business areas, increased focus on After sales service.
- Diversity/Expand into new growth areas, where existing infrastructure/skills could be most gainfully utilised.

- Renewed thrust on exports.
- Entering into joint venture/consortium arrangement with other companies.
- Cost effective indigenisation, selective modernisation and upgradation of facilities and technologies to sharpen the competitive edge.
- Fresh approach to HRM.

Availability of products when they are required by the customer should be ensured and functional strategies should adequately cover this aspect. Hence where, when, and how the product or service is available to customers should be outlined as part of the functional strategy, which implies that distribution channels and product outlets and management of product availability should be covered by the strategies. The promotion of product or service i.e. advertising, personal selling, distribution of samples, media selection etc. are important aspects and must be addressed.

The functional strategy on pricing is one of the most important tasks of strategy managers and the pricing policy considering demand and supply, profitability, regulatory requirements etc. must be established. The pricing strategy could be market oriented, cost oriented, customers oriented, product functionality oriented, competition oriented etc.

Finance

Finance is the blood stream of any company since the ultimate objective is also to generate profits and create surplus to permit continuation of company. Financial functional strategies can be viewed in time frame reference as immediate and long term. For immediate future, the financial strategies are based on immediate financial resources. The long-term strategies account for investments for longer periods of time, debt financing, allocation of surplus and using finance as leverage for company's performance in competitive environment. Key functional strategies on capital acquisition answering questions related to cost of capital, its optimum portion for short-and long-term debt, the balance to be maintained between internal and external funding, the risks attached with capital acquision etc. should be formulated. The capital allocation is one of the crucial aspects of strategising wherein priorities for allocation, basis of selection for allocation, level of allocation and the delegation of powers for capital allocation are detailed out. Operating cash dividend and capital management are a few other aspects where financial strategies at functional level must be formulated covering various aspects like portion of earnings to be paid as dividend and its stability, form of dividends to be paid, cash flow needs and balance limits of cash and cash collection procedures and limits etc.

Research and Development

Some companies keep on doing research and developments and spend a fixed percentage of their earnings in research and development to further enhance their core

competencies. We observe that today rate of change is quite fast and R&D has assumed a role of key functional area and has also become one of the core areas of thrust, requiring strategic decisions. The strategic decisions involved in a typical company are, whether it would go into basic research or product development or it would go for collaborations. It must however be appreciated that in certain fields even collaborations may not be available and even if they are made available they would be either too expensive or would be available only for second-grade technology. A new arrangement of joint ventures is gaining popularity wherein the leader in joint venture may balance its weakness by joining hands with another company such that the group may emerge stronger. Clear strategies on basic research and commercial product development should be spelt out to enable managers to work as per the guidelines. In this context, the strategic projects which would assure immediate gains and those which would give competitive edge in the long run must be listed out. The emphasis should be clear on long-term and short-term projects with focussed strategies on market or production functions. Strategies on doing in-house R&D or buying of technology should be clearly defined. The business strategies on relationships between product managers and marketing manager, strategic posture of the firm which is to adopted and vigorous offensive or defensive strategies which a company may adopt need special mention here. A company may adopt offensive strategies wherein it would strive hard to develop new technologies and would innovate because it would be the basis for future success of the company. Companies may also choose a combination of offensive or defensive strategies.

Production

Production is the key function where value is added to the raw materials to create a product. This value addition process in any company should be cost effective, fast and without quality problems like rejections, reworks, etc. The technology followed would reflect on profits and total operations of a company. The business strategies to reduce cost and enhance quality is the prime concern of the functional head.

Off late high inventories have been a problem for bigger units. The bigger size of units leads to a certain degree of stiffness in processes of business which further results in larger lead time for procurement of materials culminating into high inventories, thus adding to costs. The higher invesments in inventory leads to blockage of cash. Companies make strategies on this aspect of investment and make systems to optimally plan receipt of materials such that money is not blocked and also the operations are not affected due to non-availability of materials. Some companies are quite fortunate to be strategically located and can get raw materials whenever these are to be consumed. This is true with M/S Toshiba of Japan, where they can get the required plates from just across the waters from M/S Nippon steels unlike many companies in India who have to order thick plates at least eight to ten months in advance.

Another aspect of strategies in production area pertains to location, facilities design, planning, budgeting etc. wherein clear strategies need to be defined by the management. Regarding facilities, various question related to utilisation, centralisation

or decentralisation, their integration with regard to business processes, their mechanisation and automation, size, capacity, maintenance, disposal etc. must be answered by the functional strategies. Regarding procurement of materials, strategies on right qualities of material, at the right time and price, the number of sources, their reliability and price patterns analysis and decision, vendor relationships, forward buying etc. must be chalked down to enable managers to work according to them.

Areas like safety, breakdown, downtime, inventory control, scheduling etc. should be adequately covered with policies and strategies at functional level. Strategy focus on selective basis on low cost, high quality, customer service, innovation to frequently introduce new products, seeking for vertical or horizontal integration, maintenance of reserves, concentrate or decentrailsed processing, and other related areas must be identified and transmitted down the line. It is necessary that production and operations strategies are well coordinated with the marketing strategies for a company to succeed. The financial strategies must similarly be integrated in all the operations of a company to give the desired focus for investments, cash flows, capital allocation etc.

Personnel

Human capital has gained considerable importance in recent years. The personnel function effectively helps in integrating the strategies in various functional areas for accomplishing the objectives. This is done through identification and development of required managerial skills and design of proper remuneration system to motivate employees and also retain them . The strategies in personnel function concentrate on effective utilisation of manpower for achieving the set targets. The personnel functions consist of recruiting, selecting, orienting, developing, counselling, evaluating, compensating and maintaining good industrial relations, discipline and control, and these should be performed keeping the organisational objectives and selected grand strategies in focus. Today, due to severe competition it has become quite difficult to retain trained employees and specific strategies may be required to be developed in this regard. The training and development needs of a company and a proper measurement system is required to be installed to measure the effectiveness of imparted training. The motivating function of personnel strategies is an important aspect for developing a challenging attitude in employees for surpassing the set standards of performance and for this purpose timing of promotions, transfers, channels of promotion, incentives, benefits, seniority policies are some of the important ingredients of personnel strategies.

RESOURCE ALLOCATION

Without allocation of resources to various SBUs, implementation of strategies becomes quite difficult. The resources may be existing with a company or may be acquired through capital allocation. The redeployment of resources is quite critical when there are major changes and shifts in strategic posture of company. Redeployment of resources may arise due to strategic decision of a company to grow in certain areas

and withdraw from the other. In fact redeployment of resources is a strong way of communicating the shift in strategies of a company.

Usually, companies have been following system of allocation of resources by percentages, which may not serve much purpose these days, although the percentages may be used for making some comparisons. The allocation of resources should not be based on their availability or scarcity as it may prove to be counter productive. The resource allocation should be made with regard to strategies of a company for its future competitive position and growth. The decisions of resource allocation is also closely connected with the objectives of a company.

METHODS OF RESOURCE DEPLOYMENT

Let us turn back to BCG growth matrix for illustration on effective deployment of resources.

The cash cows are those SBUs which have matured products and generate cash surplus. The cash surplus generated can be allocated to star and question mark SBUs. Dogs do not need any investments and these are to be drawn out.

Thus we see that the BCG matrix gives a good insight into the resource deployment needs of SBUs and into the deployment needs of SBUs in the absence of such an analysis, mistaken deployment of resources may be made which may be very costly for an organisation. The BCG matrix gives quite a generalised picture of various SBUs in a corporation and does not specifically point out the amount and nature of investments.

Companies usually make budgets. The preparation of budget can take into account the facts revealed by the BCG matrix, product life-cycle charts, balance sheets, profit and loss accounts, income statements etc. We know that financial considerations vary at different stages of product life and this fact can be used for allocating investments.

When retrenchment or turn-around strategies are being implemented, zero-base budgeting has been found to give good results. When new investments like mergers, acquisitions, and expansions are carried out, capital budgeting techniques would be of great help. Other methods like residual income, net present value, Return on investment etc. may also be used for analysing the investment patterns. The operating budgets for a SBU may be fixed or flexible, depending on the advantages to be reaped. Fixed budgets may lead to non-efficient utilisations whereas flexible budgets may lead to slackness in achieving the objective. It must be appreciated that resource allocation cannot be purely a rational exercise and a lot of behavioural process is involved in the total activity. There are some political considerations as well but one should make efforts to deploy the resource based on rationality, as far as possible.

COMMUNICATING POLICIES

Policies are decisions taken to guide thinking and behaving process and guiding the actions of employees of a company in operationalising and implementing strategies for

meeting the set objectives. Policies thus increase effectiveness of managers. The policy documents are given different names in various organisations, however, they contain the standard operating procedures for the personnel. It is a method designed to optimally use human resource. The policies also speed up the decision-making process due to laid down guideline because of which the decision-making process becomes more simplified. Policies emerge from functional strategies or from corporate strategies.

OBJECTIVES OF POLICIES

Why are policies made? Policies are guidelines for managerial action in different business situations and cover generally all the strategic aspects of a corporation or SBU. Various functions performed by policies can be summarised as follows:

Control

The polices are framed to exercise control over actions of various functional groups. The polices tend to limit the discretion. Thus the top management does not have to bother about day-to-day decision-making and relies on the policies which it has decided.

Uniformity of Procedures

Policies introduce uniformity in handling similar situations in a company. Whenever a conflicting situation arises, policy document is referred to which gives guideline for action. Thus, it tends to avoid discrimination and favouritism and eventually motivates people as they get opportunities as per policies.

Quick Decisions

Matters are decided quickly if policies exist. In case there is no policy, the matter may be required to be referred to the top management which consumes considerable time. A decision already taken in one context may again be referred to the top management in absence of proper policy and this may repeat several times, thus making the decision-making process quite cumbersome.

Organisation Behaviour

The policies help in defining the code of conduct of employees of a company. The policies on placement, salaries, promotion etc. laydown certain norms which are to be executed by the executives and hence behaviours of employees are guided. It establishes consistent patterns of behaviour in given situation.

Reduction in Uncertainty

In the absence proper polices uncertainty in taking decisions exists in a company. The polices by way of providing guideline for decision taking introduce a certainty of future to a large extent.

Guard Against Flouting of Strategies

Polices emerge from the strategies at corporate and functional level and hence they guard against flouting of strategies, if any. The declared policies on promotion, purchase,

inventories, integrity, sales promotion etc. must be in tune with the chosen strategy in each of the functional areas and therefore these policies are to be followed by employees in order to accomplish the given target.

Ready made solutions to problems

Policies lay down answers to the probable problems. There may be several situations faced in a company and usually policy decision on each of these situations is adequately addressed in the policy document.

Guide for correct decision

A policy document is created after taking into account all possible contigencies. Decisions in times of crises may be required to be taken wherein policy documents become quite handy for managers to take decisions.

Policies may be unwritten or written. Unwritten polices are in fact organisational practices and are usually for maintaining secrecy. The written policies offer several advantages viz. written policies trigger thinking of managers, misunderstandings are reduced, equitable treatment is ensured, communication is easier, reference can be made whenever required, indirect control through policies is ensured.

All policies do not have the same strategic significance, however, some policies are given top priority in the company. The policies which directly affect day-to-day working are given top priority in a company. The policies can be developed through consensus of people or can be externally imported by the top officials. Factors like government laws also contribute to formulation of policies concerning profits, leasing, depreciation etc.

It is important for managers to realise the impact policies can have on implementation of strategies.

PROJECT IMPLEMENTATION

Strategies lead to plan, programmes, projects, and policies. In addition to knowledge on policies, knowledge of project formulation and implementation is necessary for strategy manager. A project is bound by time limit, has objectives and is completed with varied skills and resources. A project essentially has different phases for taking up each phase and approaching the next through step-by-step development process.

A typical project has following phases.

Conceptual Phase

A project is conceived by the managers either as a result of strategy formulation or strategic thinking. The project may emerge during brainstorming over strategies, for mulation of objective, or it may be a necessity arising out of strategy implementation requirements. The ideas generated during meetings are to be prioritised and converted into planned projects.

Definition of Project

Defining the problem correctly is vital for arriving at a correct solution. Usually identification of a correct project in an organisation may take a good percentage of total time. After the ideas are listed and ranked, each idea is probed into details and thread bare discussion held. The preliminary definition of a project is made, keeping in mind its impact on technology, personnel, production, and marketing etc. The project definition also accounts for other outside agencies like customers, stakeholders, financial institutions, banks etc. The feasibility study is carried out in detail to examine the workability of project. The results are compiled in a form of a feasibility report.

Planning Phases

The project schedule with resource requirements is planned and authorities and responsibilities of the team members and leaders is defined. A time-bound programme is prepared and the outputs and input relationships at each phase of the project is decided. The indices for measuring the performance are also decided which could be monitored at various stages.

Launching of Pilot

Some projects are quite expensive and have very serious implications and hence usually a pilot project is prepared and launched. The success and failure of the pilot gives a lot of experience which is used in final project.

Implementation

The implementation of the final project needs meticulous planning and commitment from the team to yield results. Measurement and control mechanism for implementation is agreed upon and the project is finally implemented after modifications, if any, based on pilot project implementation.

Procedural Requirements

It is important for strategy managers to be aware of the regulatory requirements of the country, state, or country where the project and strategies are to be formulated and implemented. In the Indian context, government has published guidelines for industries, policy and procedures which gives major requirements of government regulatory framework which affects formulation and implementation of strategies in a company. There are changes from time to time in these regulatory policies and guidelines and a manager must keep himself abreast with the pertinent changes. Some of the areas of interest could be as follows:

i. Listening Procedure
ii. Foreign Collaboration Procedure
iii. Foreign Exchange Regulation Act (FERA)
iv. Monopolies and Restrictive Trade Practices (MRTP) Act

v. Capital Issue Control Act
vi. Securities Contracts Regulation Act
vii. Import and Export Control Act
viii. Import Trade Control Policy Book (Red Book)
ix. Backward Area Incentives

The above is only a small list of various acts and policies etc. The strategy managers take the help of company law practitioners, chartered accountants, and other practioners for examining the formulation and impact of strategies with regard to legal and regulatory framework. Strategy formulation and implementation is required to follow the regulatory framework and laid down ground rules.

CHAPTER

12

Integration of Structure, Leadership and Culture for Institutionalising Strategy

For effectively institutionalising strategies they should essentially permeate into the fabric of an organisation. Organisations are formed for pursuit of objectives which call for joint effort for their accomplishment. The joint effort is made through various organs of an organisation that must be known for making the effort more meaningful. Organisations must possess the basic characteristics which play a significant role in its functioning. They can be listed as follows:

- Individuals and groups of people constitute an organisation.
- Efforts are made by them to accomplish shared objectives.
- Objectives are generally achieved through division of labour.
- Organisations are integrated by information and authority and responsibility relationships.
- People of an organisation are bound by decision processes.

In organisations complex business processes and tasks are divided into simpler components. The fragmentation of work is done with basically two objectives in mind.

1. How to fragment the work
2. How to integrate the fragmented work

The notion of organisation arises from the contingency theory of organisational design. According to this theory it is not possible to decide the form of any organisation based on a single situation or a single set of principles. The organisational structures evolve through internal interactions amongst its various forces and also due to interactions with external environment. The structure which is resultant to these interactions is essentially hierarchical with allocation of authorities and responsibilities at different levels. It has all the tasks interwoven in this structure which may be called as processes of different nature and take place for realisation of objectives.

The mechanism of organisational design is still not mature to offer theoretical principles and proven practices which would encompass a variety of organisations. However, management experts have proposed various theories for organsiational designs. Here the basic principles of these theories are presented.

CLASSICAL THEORY OF ORGANISATION

According to the classical theory, there are certain basic and universal principles that should be followed in the formation of organisations for their successful performance. Significant models of this theory are:

Bureaucral Model (Weber 1947)

According to this model an ideal organsiation should have the following features.

a. clearly defined hierarchy.
b. work fragmentation along the functional specialities.
c. clearly defined procedures, codes, methods, etc. for carrying out work.
d. decision on employment and promotion based purely on competence.

This model tends to get bogged down with the rules and regulation and loses sight of the actual objectives. Fulfilling the rules becomes more important. Decision-making is routine and slow and it almost ignores environment.

Principles of Management (Fayol 1949)

In this model of organisation the basic principles followed are given below.

a. Division of labour is to gain specialisation leading to improved labour productivity.
b. The authority and responsibility should be linked and should be equal.
c. Discipline should emerge from leadership, fair contracts and punitive actions.
d. The line of control of individual is well defined.
e. The actions of managers must be aligned to objectives.
f. The compensation should be based on fairness.
g. Balanced centralisation and decentralisation of activities, decisions, etc. must be accomplished.
h. The gradation of authority and responsibility should be made in hierarchy.
i. Material, equipments, people, etc. should be at right place and time.
j. Turnover should be with joint effort.
k. Stimulated initiative should be induced.
l. Employees should develop a sense of belongingness to organisation.

The above model has made a long-lasting impact on the practising managers and many modern organisations adhere to these principles.

Principles of Scientific Management (Taylor)

a. Individuals work must be fragmented and develop a science for each element.
b. Each worker is to be trained for his or her detailed work.
c. Work should be performed using scientific methods.
d. The relationship between management and workers to be ensured.

HUMAN RELATIONS THEORY

In classical theory, an individual is not identified and effect of entire group is considered in the total process of managing. In the human relation theory, the performance of the organisation is believed to depend on human beings, their behaviour, characteristics and their mutual relationships emerging from work patterns and organisational settings. The important factors which play significant roles are needs, motivations, attitudes, values, leadership, group behaviour, perceptions, communications, responsibility and authority relationship, etc.

The four basic forms of organisations (Likert 1967) thus emerging are

1. exploitative authoritative
2. benevolent authoritative
3. consultative
4. participative

Structure and Decision-making Model

Behaviour of an individual can be analysed in an organisational framework of the decision-making process. The structure of organisation is seen as a set of decision-making units with objectives like resolution of conflict, coordination amongst various units and the information flow. Different coalitions are formed in organisations having conflicting goals and for the organisations to be operational, these need not be resolved. In order to deal with uncertainties, organsiations use uncertainty avoidance methods. Problematic search implies that organisations unite their efforts for finding solutions to specific problems. Organisation learning makes organisations have adaptive behaviour.

Contingency Theory

This theory assumes that organisational structures result from environmental conditions they face. There may be some situations where formal structured organisations may perform better while in other cases a flexible structure may be more appropriate.

The mechanistic or formal organisation is found to respond more favourably in stable environment while organic structures (informal - participative form) works better in turbulent situations (Burns & Stalker 1961). A systematic application of segmentation, differentiation and integration gives a formal mechanism to reinforce the strategy of a company with a congruent structural framework.

DESIGN OF STRUCTURES

We know that structures follow a strategy and hence organisational structure design is viewed as an integral part of the strategic position of a company. The structure chosen for a company must permit development and facilitate of implementation of long-term orientation of various SBUs of an organisation. It must be adequately possible to efficiently implement short-term programmes and objectives.

The major strategic decisions of a company are the development of long-term business objectives and parallel strategies for the same. Hence an organisational structure must permit allocation of various resources for achieving the objectives and business implementation and operationalising of strategies for each of the businesses and also permit enough flexibility for adapting to changing environment.

Steps in Design of Structure

Two clear steps are identified in organisational design process :

1. The first step constitutes defining the basic organisational structure which represents the major segment of the total businesses of a firm and is defined through hierarchical order which elaborates on priorities that managers allocate to the important activities of a firm. In this step only the primary activities and the basic framework which are linked to the strategic positioning of a company are considered.
2. The second step consists of organisational design process which carves out detailed organisational structure. The flesh is now added to the basic structure with various finer details concerning operational requirements of various activities.

Usually a number of alternatives may emerge at this stage and each of them may appear to be correct. There would be various combinations of smaller structures at a detailed level. The adoption of final structures may be through deep introspection into various aspects of the functioning of a company. The key executives of a company deeply involve themselves in defining the purpose, functions, systems, etc. and testing them to select various effective alternatives. A good fit is thus arrived at between organisational structures and various managerial processes like planning, controlling, communicating and evaluating, etc.

DESIGN OF BASIC STRUCTURE

While designing structures, it is necessary to keep the strategies of an organisation in focus. The focus on business strategies leads to imbibing of business development requirements in organisational structures. The total business of an organisation depends on the individual business of the strategic business units, which are the manageable units of a company. One of the approaches could be to identify and list the critical dimensions of business unit. The salient features of this list would be as follows:

1. Products to be made by SBU.
2. Markets: industrial, government, commercial, etc.
3. Functional spectrum: sales, marketing, commercial, design, production, packing, dispatching, inspecting, personnel, administration, finance etc.
4. Technologies: batch production, process production, tailor made, automatic etc.
5. Geographic : location, distribution, storage, customers distribution etc.

Some companies have a well defined strategic business unit catering to a specific market and can be termed as a business segment. This may be termed as its primary business segment and the organisational structure may be designed according to it. The divisions are created according to various functions like administration, finance, production, etc. and a good balance is achieved between the operational and the strategic goals and objectives.

Sometimes basic segmentation based on functions like marketing, finance, production, etc. may not be possible. This kind of organisational design may reflect in its operational efficiency since to concentrated focus is only in the direction of a primary dimension thus neglecting the other aspects.

There are a host of competing factors in a company and organisational design has to account for them to permit smooth functioning at various levels. The choices become quite complex. A careful examination of various factors, their weightage and the various competing forces, show that the emerging organisational structures may not be quite homogeneous. The lack of homogeneous criteria for segmentation and hence lack of symmetry in structures in various functional structures is not an exception but a rule due to several varieties of requirements for each of the functions.

DETAILED ORGANISATIONAL STRUCTURE DESIGN

The objectives of detailed organisational design are as follows :

1. Identify various operational tasks of organisations which would constitute various daily activities.
2. Assign tasks to organisational segments which have been already identified.

The basic structure defines the method of operationalising strategies by way of design of organisation and the detailed structural design identifies various centralised functions like marketing, to a centralised functional manager.

The responsiveness of organisational structures, to various situations that emerge due to changes, is another factor of interest which affects detailed design of organisation. Some other questions that may be vital and need specific answering can be listed as follows. By no means this is the final list and each organisation has to raise its own question and address them.

1. A system of giving required attention to product.
2. The method of division of centralised function.

3. Division of function by factors such as clients, income, religion, age, etc.
4. Division of operations by machine tools, personnel, plant stages, products etc.
5. Interaction of R&D with all functions.
6. Distribution channels, their integration, deliveries, customer needs, etc.
7. Training of managers, development skills, evaluation of performance, etc.
8. Integration and merger issues.
9. Business needs of other countries, home country, host country.
10. Integrative mechanisms, their operation at various levels.
11. Work distribution, responsibility, authority, accountability, etc.
12. Special clients, dealing with them, attention required.
13. Autonomy requirements.
14. Policies at various levels.
15. Agility requirements amongst functions.

STRIKING A BALANCE BETWEEN MANAGEMENT PROCESSES AND STRUCTURES

Systems should integrate fabric of organisational structures for smooth and trouble-free working. The management systems should be complementary to the structures.

The systems provide an integrative relationship amongst divisions, functions, work centers, departments, etc. They must support and reinforce the primary objectives for which the organisation came into existence and this is to be achieved at all levels. The relationships, authority, responsibilities, accountability, autonomy, etc. must be operational for meeting the desired objectives.

SYMPTOMS OF A MISMATCH BETWEEN SYSTEMS AND STRUCTURES

Some of the glaring symptoms that one comes across in an organisation where managerial systems do not match with the structures are enumerated below :

1. Total lack of opportunities for growth of workers, managers, etc. The functionally oriented organisation by virtue of its strong boundaries of functions does not permit cross-functional training and hence development of managers and other employees is affected.
2. Employees do not devote any time for thinking on competition, ways of improvement of systems, technology and operations due to concentration on day-to-day issues and decision-making is centred at the top. The key personnel responsible for profits and improvements are over-loaded with routine jobs and do not get enough time to look at other issues.
3. A demotivating working environment wherein, good work is neither recognised nor appreciated is considered to be highly antagonistic. The

motivational and reward system, if any, does not match with the structure and processes. The structure and process also do not have a good relationship.

4. The symptoms which indicate that the firm has organisational structures, not in congruence with the requirement of its strategic positioning are, absence of definition of portfolios and their business planning, neglect of requirements of special markets and lack of approach to growth.
5. When integrating-mechanisms of an organisation fail, it reflects on total co-ordination amongst various functions or departments.
6. Sometimes duplication of various functions, like in data processing activities may occur, which reflects inappropriate task definitions or improper integration of various functions at different levels.
7. Unnecessary synthesis of functions or units reflects a wide dispersion of functions and also differentiation of task in the function.
8. Whenever performance indicators reflecting poor profits and quality, low speed of operations, untimely delivery and poor service are noticed, it implies that the firm should reexamine its strategies, structures, policies, etc. and choose a matching structure for strategies.

ASPECTS OF ORGANISATIONAL STRUCTURE

There two key aspects of organisational structures. There is one part which is quite visible and we classify it as superstructure. The other part is comparatively less visible and is called as infrastructure which is related to authority, relationships, communication, etc.

Superstructure

This generally should be in the form a chart which is also called organisational chart. The organisational chart shows the following.

1. The hierarchy of organisation and how it is structured to meet the tasks (Refer Exhibit 12.1).
2. The level of differentiation (degree of specialisation of activities) (Refer Exhibit 12.2).
3. The principal ways in which the organisation is integrated (Refer Exhibit 12.3).
4. The levels which indicate relative importance (Refer Exhibit 12.4)

Exhibit 12.1 Organisational Hierarchy

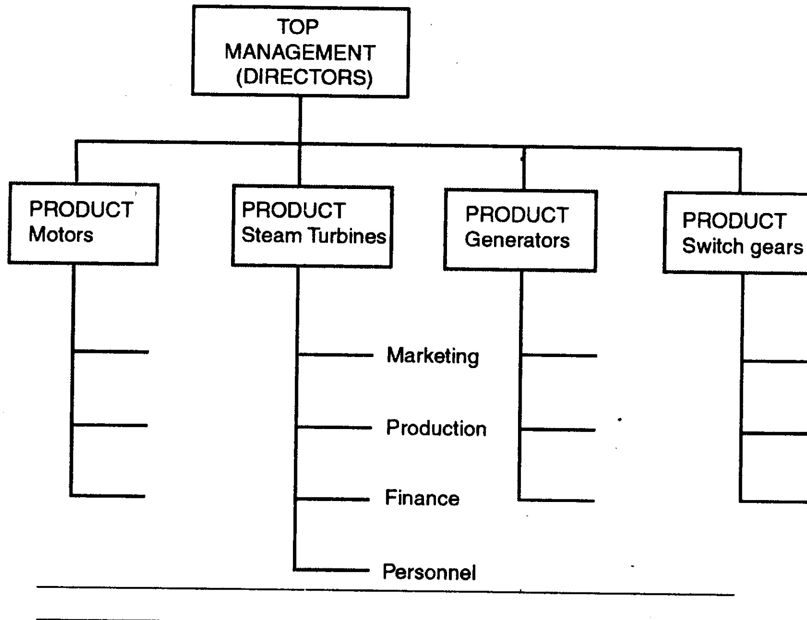


Exhibit 12.2 Level of Differentiation

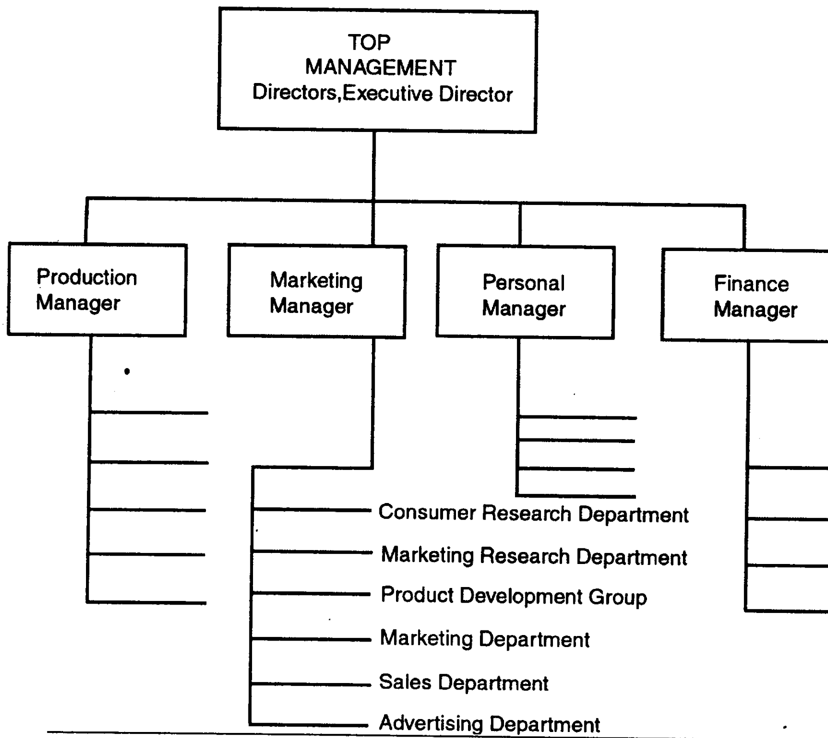


Exhibit 12.3 Zonal Organisation Structure

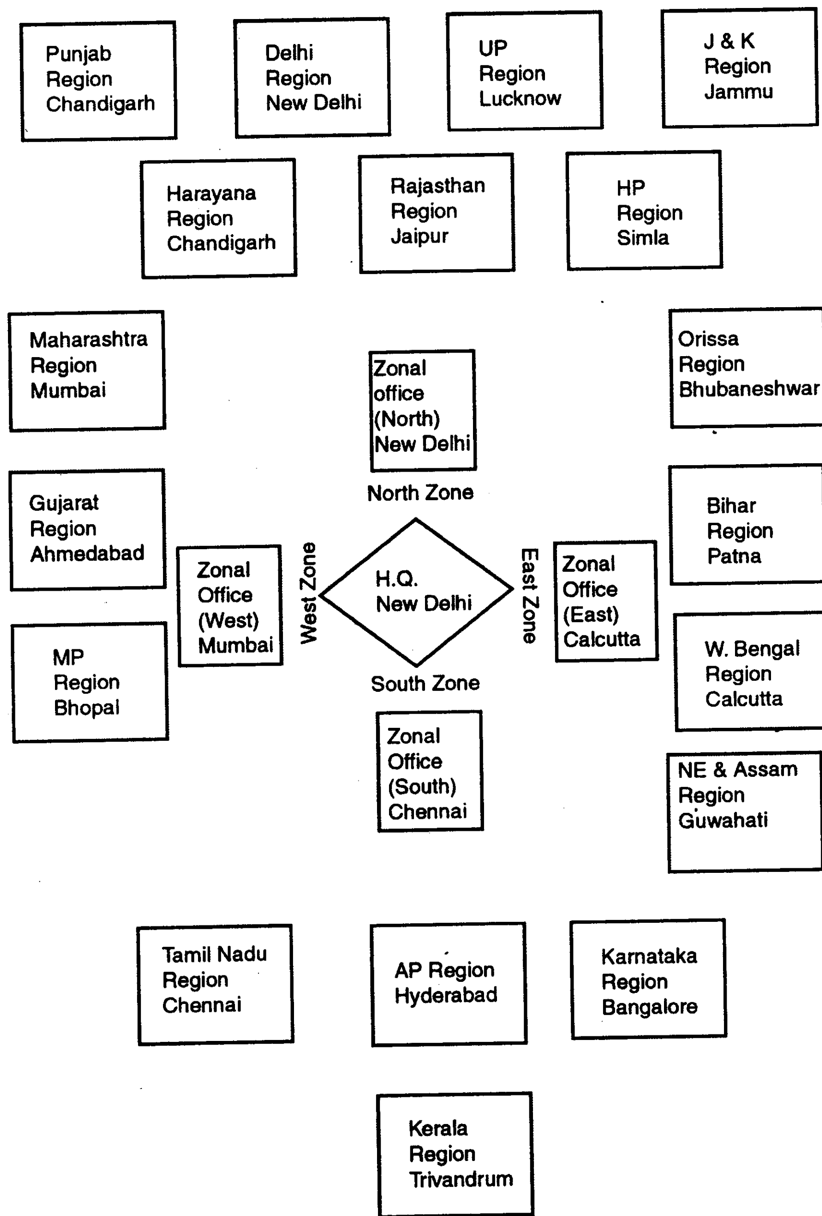
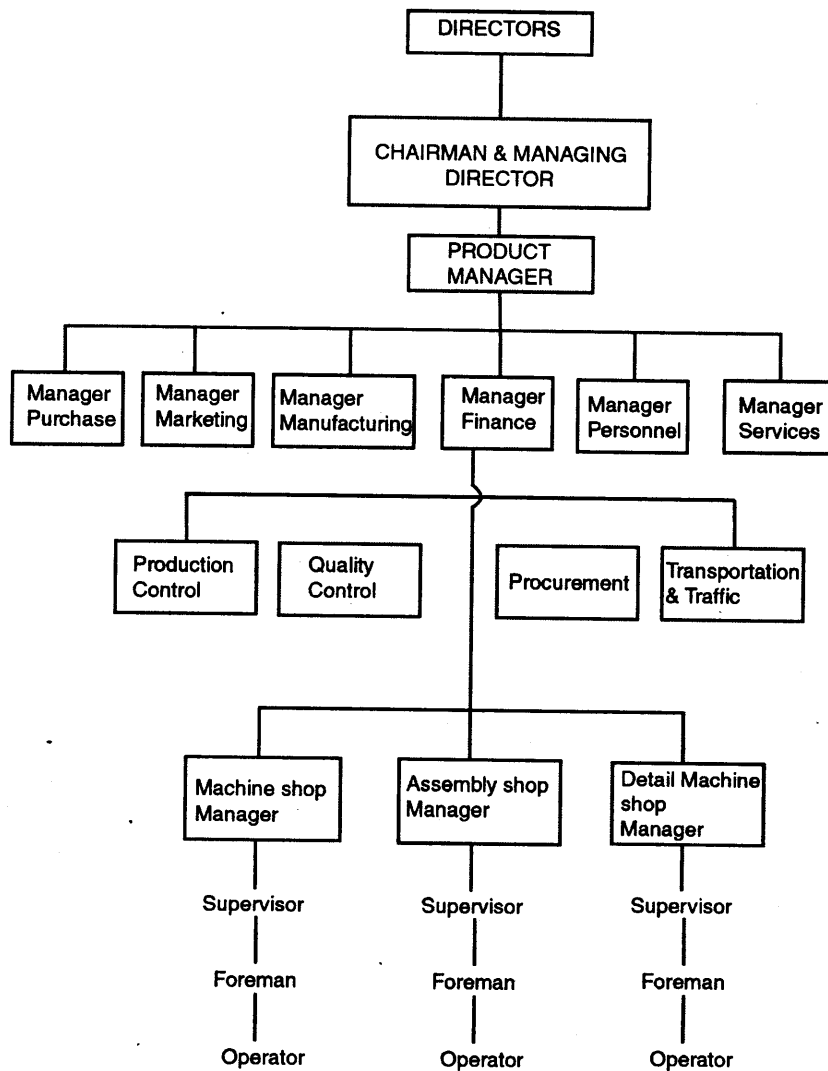


Exhibit 12.4 Levels of Relative Importance



There are several factors which are responsible for various groups created in organisational structures. Some of these factors can be summarised as follows:

1. The grouping in organisational structure is guided by the functional interdependence of groups. The interdependence is basically of three types and can be categorised as reciprocal, when inputs of one is output of another and vice versa, sequential, when output from one goes as input to other, and pooled when output of groups is interdependent on one another.
2. The span of control is another factor which decides the groupings and it depends on the nature of job and the required intensity of interactions at various levels.

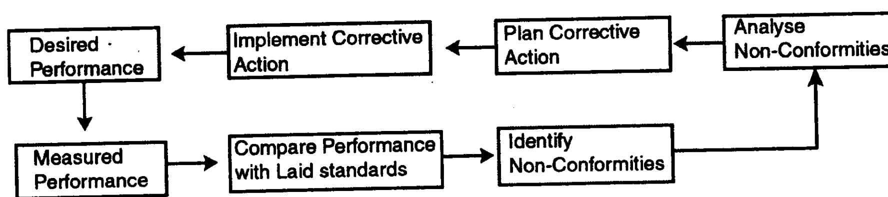
3. The nature of functions performed by people at various levels lead to grouping decisions. Grouping of technology division to accounts may not help much, but if it is grouped with manufacturing it may be of great use.

Infrastructure

Infrastructure deals with invisible relations like delegation, information system, communication channels, authority, accountability, etc. The infrastructure integrates the performance oriented behaviour of the organisation and hence the total coordination amongst various systems works effectively. The infrastructure serves the following functions.

1. It integrates the organisation for effective working.
2. It predicts the behaviour of organisation in certain situations.
3. It tends to make the organisation more effective.
4. It creates environment wherein people closest to the tasks can take decisions, and defines the needed decentralisation of power for taking decisions.
5. It helps to build the required culture of organisation to accept the responsibility and own decisions.
6. It helps to develop effective communication system which arises out of needs of delegation of power and decentralisation of power for taking decision. The effective flow of information leads to quick decision-making processes.
7. It leads to empowerment of people.
8. It lays down a system of accountability towards decisions which affect performance and profits etc. (Refer Exhibit 12.5).

Exhibit 12.5 Review of Performance



TYPES OF SUPERSTRUCTURES AND THEIR CHOICE AS PER STRATEGY

Strategies are closely linked to organisational structures. If structures are not congruent with the chosen strategies then effective functioning of organisations is difficult to be achieved.

In small companies we have an employer and an employee. As the organisation grows namely the volume of operations grow, the organisation essentially transforms into a functional structure. The function implies the type of job or work. In a design function, all the groups of people would be oriented towards doing engineering work whether it is related to product design, services to shops and other related functions

like commercial, materials management, service, product development, data collection on design features, standardisation of product features and so on. The function leads to creation of a department. In a function or a department the work is further fragmented and groups of people specialise in their own fields. This also enhances the human productivity due to specialisation i.e. benefits of economies of scale can be achieved.

As the size and number of operations in a function grow, the operations become more complex and coordination amongst various groups becomes even more complex. In this process, dominant businesses may eat away most of the time of the operating groups and the most promising question mark-areas may be left unattended.

When organisations grow by diversifying into a number of businesses related to markets, products, services, etc., it may become quite necessary to create another level above the functional level and thus a multi-divisional organisation is created.

A divisional organisation is created due to achieve effective and better coordination among various functional units of an organisation and to develop improved responsiveness to external environment. Creation of divisions could be based on any of the primary factors viz. area, product, client, geographical location, etc.

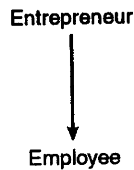
Some companies change their products, services, areas of operations, etc. quite frequently as part of their growth strategies. This may require introduction of another layer between the divisional and functional level and maybe termed as project development or project implementation or both. Usually such groups are temporary but some companies as a policy may have these groups as permanent.

In case of holding firm, company structure can be considered similar to divisional structure where each of the divisions have autonomy and operate as companies. However, in holding company structures, the key company has 50 percent or more stake. Although the subsidiaries may be independent, they may not essentially be free to take decisions pertaining to policies and strategies. This control may even be exercised if equity held by the main company is less than 50 percent. The main company along with its subsidiaries is commonly known as business house.

Simple Structure

In a simple structure there is an owner of business and there are employees (Refer Exhibit 12.6). Usually this kind of structure prevails in small businesses. The decision related to all the issues and functions are centralised. The owner is an embodiment of all power and the control is also highly centralised. It is high responsive system and can make changes quickly to suit the market needs. It facilitates meeting unique demands of a customer. The employees are expected to be multiskilled. When the volume of business increases this structure consumes almost all of the time of owner-manager and he can hardly devote any time for strategic thinking.

Exhibit 12.6 Entrepreneurship



Advantages

1. It results in good control over the entire business.
2. Decision-making is faster.
3. Rewards, recognition and motivation are simple and straight.
4. It is highly responsive.
5. It has good adaptability to customer's demands.

Disadvantages

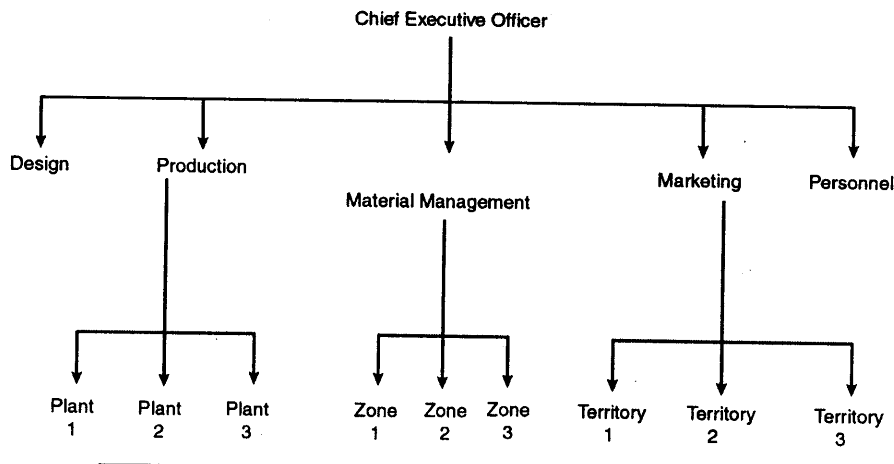
1. Due to concentration of decision-making powers, it is very taxing for the owner.
2. As volume of business increases it proves to be inadequate.
3. There is no development oriention.
4. It is based on survival for day-to-day operations and hence it is highly reactive.
5. There is no participation of employees.
6. Employees feel more insecure and may leave very fast.

Functional Structure

When a company concentrates on one or a few products it can have a functional structure (Refer Exhibit 12.7). Functional structure signifies orgnisational relationships inside the organisation based on functional requirements. In functional structures, the groups doing similar jobs are clubbed together to form separate functional units, leading to specialisation and labour productivity. Some companies develop experts in specific functions and products which encourage innovation, efficiency and further refinement of the expertise in a particular field.

Thus a firm tends to build core competency in a specific specialised area. The job of functional heads is to effectively coordinate amongst various functional units. The narrower the specialisation becomes, the more myopia it imposes on the vision of managers, and they tend to develop limited perspective. The company executives may concentrate more than required on functional specialisation and may get tied up with their specific functions.

Exhibit 12.7 Functional Structure



Advantages

1. Employers believe that excellence in specific functions can lead to success and hence they make efforts towards specialisation.
2. There is a continuous developmental effort in functional areas which is beneficial for a company.
3. Decision taking is at various levels thus involving people concerned.
4. There is centralised and effective control of strategic decisions.
5. The authority and responsibility relationships are clearly defined.
6. Productivity can be enhanced by close monitoring.

Disadvantages

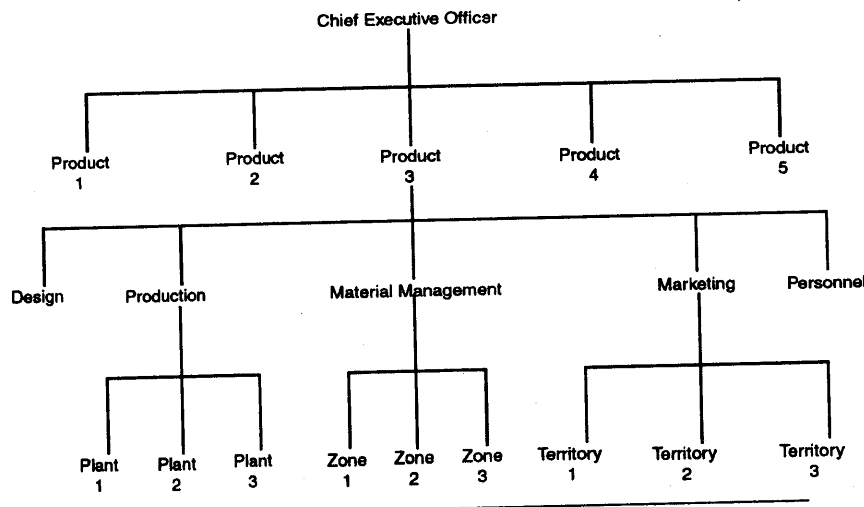
1. This form of organisation structure leads to specialisation in narrow areas.
2. The specialisation leads to ego problems and conflicts.
3. The coordination work amongst various functions becomes too large.
4. Interfunctional decision-making process becomes more complex.
5. Close boundaries of work are created by functional groups, leading to conflicts.
6. Development of individuals in general is retarded although specialisation in some areas takes place.

Divisional Structure

When a company diversifies into similar when different products or services, when it covers very broad geographic areas or when it caters to variety of industrial requirements which entail dividing the business into subunits for the purpose of effective management, divisional structures are created (Refer Exhibit 12.8). When companies enter into unrelated markets and cater to needs of entirely different categories of

customers, functional organisation becomes irrelevant. This happens due to the volume and diversity of business that it is required to handle. A much larger dimension of coordination is required, therefore functional structures cannot perform effectively under such situations.

Exhibit 12.8 Product Division Structure



A divisional structure permits functioning of each unit independently with adequate empowerment for taking decisions related to operations of division. The policy guidelines at the apex of the company gives direction for strategic management of each division. Since the company faces a variety of competitive forces in environment it has to be essentially fast responsive in taking decisions of strategic importance and this becomes comparatively simple in divisional structure. Sometimes these divisions may be declared as independent profit centres thus allowing for accurate assessment of profits and losses.

Advantages

1. The divisional structure permits empowerment of people at divisional levels.
2. Responsiveness of the structure towards outside environment is fast.
3. It caters to specific needs of growth, empowerment, policies and strategies suiting to a specific division.
4. It enables effective implementation of strategies.
5. Enables CEO to have broader perspective and take major strategic decision.
6. This organisational structure permits focus on performance, and accountability is more transparent.

7. It permits specialisation within the functional groups.
8. It provides opportunities to managers for training.

Disadvantages

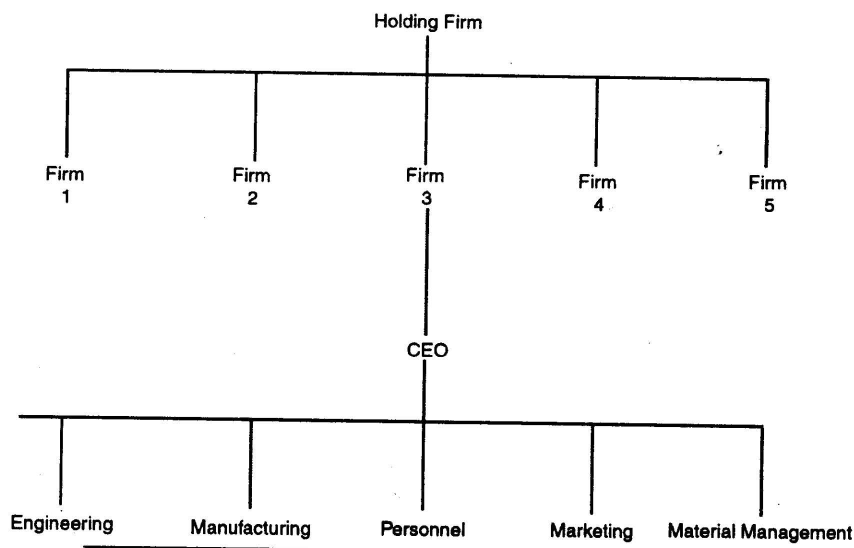
1. The effect of competitive environment is not felt directly at corporate level. It is transmitted from the divisional head level.
2. The empowerment at divisional level sometimes becomes a problem and source a of conflict.
3. Since there may be many divisions, it may not be easy to achieve uniformity in policy implementation in all divisions.
4. Sharing of failure, costs, and success is often a matter of dispute.
5. Apportioning of overhead costs of corporate poses a problem.
6. There is tendency in divisions to become autonomous.

Emergence of SBUs

The divisional operations may become quite complex if diversity in products, customers, markets, etc. increases and the corporate management may find it nearly impossible to concentrate on each of these units. In such cases where controlling the numerous multi-industry divisions becomes more complex, it may become necessary for companies to introduce divisions and departments in structure (Refer Exhibit 12.9). This may be done for better strategic control, for strategy implementation, to reap benefits of synergy, etc.

This extra layer is termed as strategic business unit (SBU) and is created or structured based on the available market or product segments to a company for doing business.

Exhibit 12.9 Holding Firm—Subsidiary Structure



Advantages

1. This structure is conducive for coordination amongst divisions having similar strategies.
2. It also serves as a good model for integrating divisions with similar products and markets.
3. It helps in exercising strategic control over the entire spectrum of business operations.
4. It works better when businesses are large and have diversity.
5. It facilitates coordinated planning for growth of business at corporate level.
6. It provides a system for accountability of business operations.

Disadvantages

1. It results in one more layer in business thereby creating a greater gap amongst divisions and corporate management group.
2. It may create competition amongst SBUs for more share of corporate resources.
3. The tasks at SBU level may overlap.
4. Degree of autonomy of SBUs may vary creating dissatisfaction.
5. It may be difficult to set common performance norms for SBUs thus creating conflicts.

Matrix Organisation Structure

When companies become quite large with several products and projects with most of them possessing great strategic importance, an organisational structure which gives resources as desired and exercises a definite control as per the needs would prove to be useful. The organisational structure that prevails in companies is called as matrix organisation (Refer Exhibit 12.10a and b.). The matrix form of organisation creates two channels of authority, responsibility and control. The subordinates in organisational structure have not only to report to functional groups heads but also to the project management. This organisational form has two simultaneous benefits viz. functional specialisation and project or product specialisation.

In matrix form of organisational structure the middle managers broaden their understanding of strategic issues faced by the company and thus conflicts between strategic and operating systems are resolved. They share power and decide amongst themselves the sharing of resources for overall benefits of the company. It provides a mechanism for accommodating a varied and changing market and product, project, or technology.

Exhibit 12.10 (a) Matrix Organisation

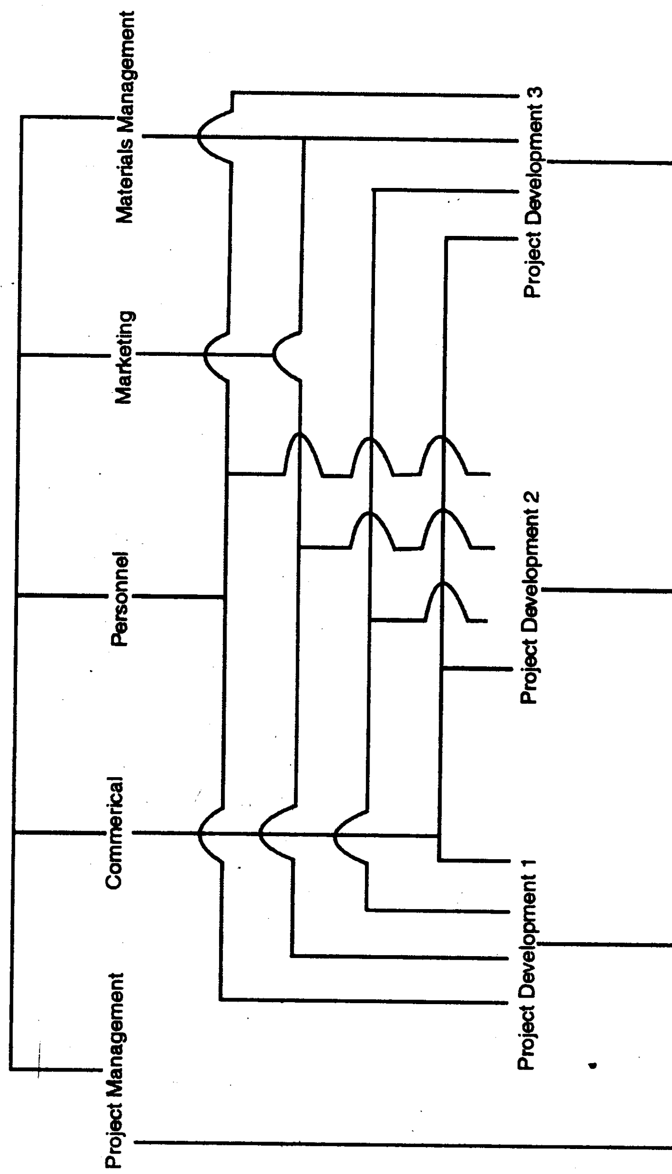
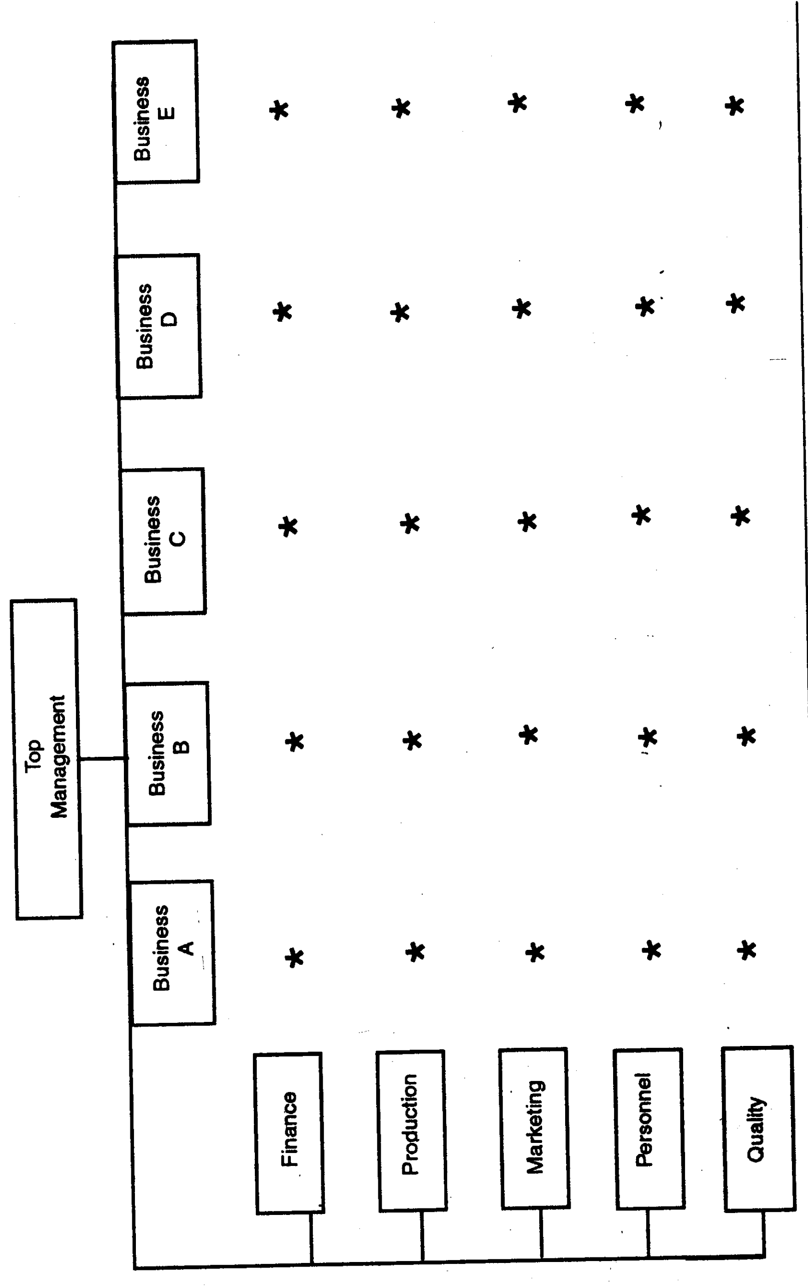


Exhibit 12.10 (b) Matrix Organisation



It is found that implementation of matrix structure is quite difficult because the two way controls create some conflicts in organisational orientations. The managers in the next line of command may develop misunderstanding and confusion with regard to responsibilities which are shared and deployment of resources.

In order to overcome these problems, structures which provide some flexibility viz. temporary or flexible overlay structures are designed which come into being for a specific strategic task.

Advantages

1. Caters to requirements of a large variation in business orientations.
2. Accommodates a variety of project oritented business strategies and related activities.
3. Provides the line managers with many opportunities to gain hands-on experience.
4. Permits functional managers to perform effectively.
5. Permits use of creativity with regard to handling of diverse businesses.
6. Permits effective use of multiple resources.
7. Gives exposure to managers even at lower levels on strategically important issues faced by a company.
8. Flexibility as desired may be introduced by way of task force.

Disadvantages

1. The accountability and responsibility is dual thus loading the managers excessively.
2. The duality of responsibilities can cause some confusions at middle-level management.
3. The policies at some point of operations may be conflicting.
4 This kind of structure increases the coordination work multifold.

SYNTHESISING STRUCTURES WITH STRATEGIES

There is no single organisation structure which can be called as the best because structures are evolved based on strategic needs of a company. To suit a particular set of strategies, a specific organisational structure may be chosen to meet the requirement of effective implementation of strategies. This in turn may create different situations wherein several administrative problems may also crop-up. Hence structures are also chosen keeping in view the problems related to strategy execution. The important factors which decide selection of a structure are discussed as follows.

Whenever a company goes in for a different orientation towards strategies it requires changes in organisational structures. An entrepreneur model may change to functional structure depending on change of business strategy of expansion and

concentration. We must appreciate that all forms of structures are not suited equally for implementation of strategy.

It is usually found that organisational structures which come into being due to prevailing strategic orientations continue to operate in a company. When there is a change in strategies, the old form of structure continues until companies start slipping in their performance and urgency of shifting to new and more effective structures is felt. The changes in strategies do not immediately uncover the serious repercussions of continuing with old structures unless the results show otherwise.

As companies grow in size there may be a need to change structures as valuation of business may become difficult to be handled by the prevailing structures. When a firm goes for diversification into larger products, services and markets, restructuring the company for more effective business may become inevitable

The changes in market conditions of competition in terms of volume and quality may require companies to be fast responsive thus necessitating changes in organisational structures.

In fact companies move through several stages of restructuring as per their strategic needs to arrive at their final structure forms. The strategic changes occur due to changes in size, competition, diversity, etc. The chosen structure must be able to segment the key activities and the strategic business unit to improve efficiency as required by the competition prevailing in market through specialisation and fast response to environment. It should also provide the requisite flexibility of operation to managers responsible and accountable for the company's performance. Simultaneously the chosen structure should also integrate these strategic business units or key activities of a company such that interdependence is more effective for performing and overall control is established to account for strategic growth.

Organisations have their own inertia and hence fast adaptability to fast changes is found to be quite difficult. Companies go on making incremental changes as diversity, competition, product range, etc. change. However, when a predatory competitor steps in or company performance dwindles, the changes in structure become imminent.

To conclude we may say that choice of structure depends on:

1. size of company
2. range of products and services and their diversity
3. nature of competition, core competencies required, environmental factors, volatility in business situations, etc.
4. internal environment of a company which in turn depends in its internal political forces, culture, values etc.
5. the quantum of integration, information flow, coordination etc. required in a company

LEADERSHIP AND ORGANISATIONAL STRUCTURES

For implementing strategies, leadership is one of the primary requirements. Appropriate leadership is also necessary to enable the organisation the cope up with the changes that may occur due to adoption of new or changed strategies. Leadership does the job of mobilising people and developing structures and systems for effectively implementing the strategies. Successful execution of strategies requires effective leadership.

Within the framework of organsiational structures are individuals, groups and various sections which acts as mechanisms for implementation of strategies. Effectiveness of actions of these units are pertinent determinants for successful implementation. Failure of leadership would lead to problems with regard to goals and actions, conflicts at various stages and absence of coordinated efforts. An ineffective leadership may lead to absence of strategic thinking and action. Leadership is a significant factor in developing the right culture and climate for strategic implementation.

While effective leadership is necessary for organisational success, with regard to strategies leadership can be viewed from five basic dimensions as follows (Khandwala)

1. Risk-taking which involves making high risk decisions for high rate of returns.
2. Optimisation which involves a committed planning and scientific methods to take decisions based on technical needs.
3. Flexibility which involves adaptability to changing requirements in structures and agility in operations.
4. Participation which involves participation at all levels in the decision- making process and strategy implementation.
5. Coercion which involves domination, authoritarianism, value orientation, and compliance with wishes.

Various forms of structures have been linked to different strategies in the context of performance (Kandwalla P.N. Some top management styles : Their context and performance, organisation and administrative sciences,vol 7, no.4 winter, 1976) and their relative effectiveness is evaluated.

Leadership should be viewed in the context of environment which can be regraded as turbulent, volatile, hostile, heterogeneous, restrictive and on the amount of sophistication.

Let us examine the specific roles played by the management at different levels with regard to environment and styles.

CEO in a company has a key role in strategic management. He has to play the responsible role of identifying a strategy and is also ultimately accountable for its success. The triggers that take place in the environment are quite feeble and the CEO must be able to sense them. CEO must have a vision for future which when shared with his people motivates them to look forward for growth. He must also possess interpersonal skills and creativity to mobilise people to accept the ensuing changes.

The nature of the role of CEO is symbolic for new strategy. The seriousness and the commitment that the CEO exercises in the formulation and implementation of strategies affects the behaviour of managers. The commitment and seriousness of the CEO arise from his or her personal goals, aspirations and values which provide the basis for clarification, guidance and making adaptations during the implementation process. This why a new CEO is appointed when there is a major change perceived in the strategic growth needs of a company.

MANAGERS

Right managers in correct places in the organisational structure make a lot of difference in strategic implementation. Hence whenever a new CEO steps in with new strategies, he or she makes major changes in key positions. Managers who occupy key positions enjoy the confidence of CEO and this is closely linked to the expectations of CEO with regard to implementation of strategies. The CEO takes interest in knowing each managers closely and would like to know their characteristics that would be helpful in successful implementation of strategies. Some of the distinct characteristics that a CEO would like to ensure are :

- proven experience
- required education
- required personality
- acceptance
- temperament

It is found in practice that managerial characteristics are difficult to match with strategy requirements, however, intuition and informal matching of characteristics is prevalent. Some companies prefer to bring in new managers, whereas others reorient and train the existing key personnel to enable them to switch over to new strategies. The effects of retaining existing managers can be summarised as follows:

1. An existing manager is aware of existing systems and technology and knows the people around.
2. He is more acceptable compared to an outsider due to his previous association.
3. He has formal and informal relationships with equals, subordinates and superiors.
4. Selection of an insider reinforces a company's commitment to career growth of employees.
5. He is not very costly compared to an outsider.
6. He has experience of dealing with different situations faced by a company and is aware of various policy issues.
7. There is a large amount of certainty of knowing the person.
8. The change-over due to an insider may be smooth.
9. The existing manager due to his experience develops a mind set. He also has many commitments due to which he gets biased and is unable to adapt himself to the changes.

Managerial Assignment in Turnover Situation

Let us consider a case where an organisational performance has not been quite good over a year and strategies have been chosen which would bring in major changes. In such a situation, usually managers from within the organisations would not be very suitable due to their defensive attitude towards what they were doing earlier and also due to widespread changes involved which may not be appreciated by them. The internal manager may have some partial internal commitments that may force him to take mild actions. An outsider may more effectively pursue new and changed strategies.

Managerial Assignment in Selective Blend Situation

In cases where a company has been performing well, but strategic changes are required to be introduced due to new dimensions in competition, product profile, changes in market, technology or new external factors, managerial assignment may be given to the existing managers as a reward for good performance shown in the past. They would be in an advantageous position to implement strategic changes due to their knowledge of people, practices, systems, etc. and would be in a better position to integrate the resources. On the contrary, an outsider would bring with him new skills and experiences and adds to the existing talent and skills. In such situation the approach of management is to arrive at the most appropriate blend of existing and new managers who supplement each other with their knowledge and experience.

Managerial Assignment in Stability Situation

Stability situation is one where performance of the existing managers in an organisation has been good and there are only minor changes necessary to implement new strategies. This situation limits the chances of growth for existing managers since only small changes are implemented in strategies, yet it gives them ample opportunity to work more effectively. They would be aware of people, practices, suppliers, products, markets, behaviour, etc. and can effectively handle the situation.

REFOCUSSING

Sometimes companies are faced by situations wherein minor basic changes are required to be made. The requirement of a new strategy may be to refocus on business issues, markets, technology, etc., to increase responsiveness, to improve quality of products and services and for other issues which may be significant to the business growth and competitive position. The company may have had a not-so-bright past record of performance due to two basic factors.

1. Inadequately skilled managers
2. Inadequate capabilities of managers

The inadequacies can be overcome by training, motivating and inviting recommitment to business objectives. Alternatively an outsider may be invited to play a significant role in reorienting managers to objectives, policies and strategies.

CULTURE OF ORGANISATION

Every organisation has its own culture. Organisational culture is the sum total culture of individuals which gets reinforced over a period of time and people develop specific values which guide their behaviour. Culture is usually unstated and in the form of significant assumptions. There is a factor of having a common culture amongst organisational members. Culture constitutes honest beliefs and values which guide a set of activities, opinions, actions and behaviours (Refer Exhibit 12.11).

Assumptions of Culture

The common assumptions prevailing in an organisation are the values and beliefs. Beliefs and values develop over a period of time and get set into the culture of an organisation. There is a fine difference between values and beliefs which is discussed below:

Values Values are the assumption for which people have ideals. People in an organisation strive to achieve these values. The values get inculcated in an individual from childhood due to personal experiences and from the process of identification of an individual who influences the personal growth and development of an individual.

Beliefs These are assumptions on the behaviour of world and its working. These beliefs also get built up over the years based on the experience of an individual and to some degree get influenced by the judgement and expertise of others whom they consider at a comparatively higher pedestal. We often have honest wrong beliefs.

Usually it is quite difficult to speak of what values or beliefs one has because, one may not even be aware of them or may consciously believe in just the contrary of what he or she might say.

One becomes aware of values and beliefs only when he/she is challenged.

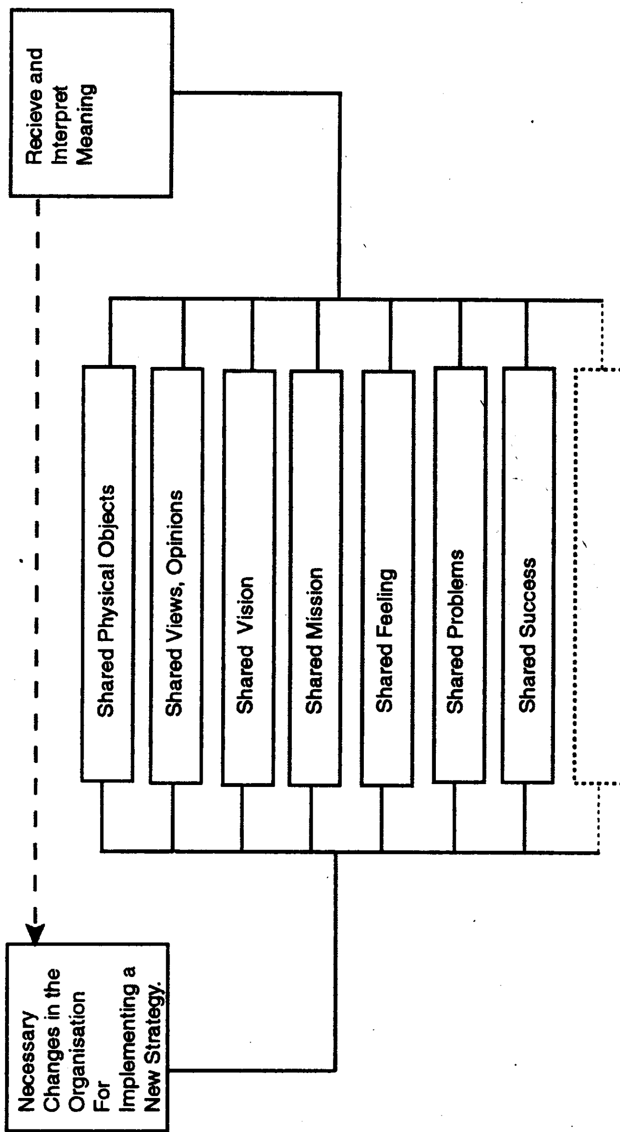
Shared Assumptions

A person working in an organisation may be fully aware of values and beliefs of the organisation but may not internalise them. The internalisation of values would occur when an individual would find some congruence in his own values and the values of organisation. A person may thus derive satisfaction from what he or she does in an organisation. The person becomes committed to an organisation and adheres to the values and beliefs of the organisation. Thus sharing of beliefs and values takes place and gives shape to the organisational shared values.

CONTENT OF CORPORATE VALUES

Corporate values are values of managers at the top level. The esteem of an organisation will depend on the values that the top management of an organisation cherishes. Some organisations emphasise on integrity, independence, etc. while others value hard work, interdependence and cooperation. Consistent values lead to organisational norms.

Exhibit 12.11 Understanding Culture



When actions of managers are congruent with norms, they get reinforced. Some values like tolerance, empathy, risk-taking, etc. get embedded in the fabric of an organisation.

Cultural Content

The cultural content comes basically from the influence which a company has on the business environment. Industry environment also affects culture of a company. Some companies which are in high technology business, value innovation. This is true for electronics industry as well. When people join a company they bring with them their personal beliefs, values and assumptions which depend on their growth, exposure, experience, religion, community, heritage, etc.

After joining a company these people face various situations and cope up with a variety of problems to varying degrees in different situations. These conditions mould their values and beliefs.

Thus culture emerges from the interaction of all the above forces. It is thus prone to change with the learning process and hence the change is slow, evolutionary and incremental. Sometimes, situations like threat for closure or war make the changes rapid and radical.

Positive Effect of Culture

Culture integrates various organs of a company and affects its day to day working (Refer Exhibit 12.12). The three basic ingredients of culture are as follows:

(a) Density The density of culture may be thin or thick. Culture can be in layers of important beliefs and values and as the number of layers increase, the culture becomes more thick. Thin culture has comparatively lesser number of shared assumptions and has only feeble influence on organisational processes.

(b) Sharing Some beliefs and values are common and shared more, as compared to others. Cultures which have more shared assumptions, beliefs and values have long lasting effects on the people. Widely shared cultures take deep roots in organisations.

(c) Priority Every value or belief can be ranked based on its importance and thus a relationship amongst them can be established. In prioritised or ordered cultures, assumptions, values and beliefs which have predominantly significant impact are more important to people and should prevail in times of crisis.

Exhibit 12.12 Analysing Culture

Shared things	-	Uniform
	-	Tea, breakfast food
	-	Clocks, watches
	-	Tumblers
	-	Offices

	-	Computers
	-	Parking
Shared sayings	-	People at top do not understand
	-	General managers busy in counting bolts and nuts.
	-	There is stagnation at top.
	-	Whether you work or don't, you will get salary
	-	You can't remove me from job.
	-	Systems don't work. Getting work done at personal level
	-	Turnover is important
	-	General Managers will decide
Shared doings	-	Large number of meetings
	-	Absenteeism without information
	-	Coming late to work
	-	Not sticking to deadlines
	-	Relying on crisis. Belief that top meet targets
	-	Close monitoring and policing
Shared feeling	-	Company has built many families
	-	Company is in wrong hands
	-	Age and not competence is given preference
	-	Old people are too many
	-	Needs total shake up

Understanding Culture

Understanding of culture requires indepth observation and empathy since its study is inference-based, subjective and approximate. One cannot take for granted what people say about culture. Sharing is the key to understanding culture. What people share gives clue to cultural understanding. A lot of inference can be drawn from what people say, do, share in feelings, etc. Culture has to be deciphered in its true sense by filtering out most manifestations.

Let us now examine how culture affects organisational life in terms of various processes.

Teamwork Teamwork and mutual cooperation can hardly be legalised in companies. Some methods like incentives, commissions, etc. can be paid for extracting good