5 ELEMENTS
OF
ORGANIZATIONAL
EXCELLENCE

3S + 2R ⇨ 3Q ⇨ EXCELLENCE

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Preface

Every organization faces one or more of the following problems….

- Growth
- New products
- Expansion
- New business
- Employee retention

The solution to these problems are either increasing marketing efforts, developing new products, developing new markets or going for diversification. Yet the sustainability, profitability continues to haul the promoters.

Having a quality product at affordable price is highly recommended. Right? The question is who determines the quality? Customer? Marketer? Who? My product has highest features does it mean my product has the best quality?

Does your competitor redefine quality of a product for the customer? Will satisfied customers come back to buy your product? How will the technology affect your product/industry?

We are investing (money), we have material, machines, manpower. What else do we need? Some of the highly successful companies have gone out of the market abruptly. There are many examples. Large number of companies are having sustainability problem, despite having very high resources (money, material, machine manpower). Do companies need different resources today than the traditional resources?

We have used appropriate strategies, strategy frameworks for decision making, yet the results are not as projected.

We have systems in order. But they don't seem to be working.

Today the need is to have a radically, not incrementally, different approach while address the issues related to quality, quantity and quickness. We consider product quality today is not determined by one dimension. Quantity, how much to manufacture is not just the function of economies of scale, and responding to market quickly is more important than ever before for organization's sustainability and growth.

This book discusses five elements namely, strategies, structures, systems, resources and relationships to improve organizations ability to improve on three fronts. The product quality, quantity and quickness (responsiveness to market demands). The objective is to help the strategy makers more focused on job in hand and students understand the fundamentals of strategic management.

What we have seen is most top managers spend their time in governance than strategic planning. This book will help them improve their strategic decision making. The book will also help them get perspective regarding quality, quantity, quickness, strategies, structures, systems, resources and relationships.

We would like to thank Prof. Krishna Kumar, Former Director IIM Kozhikode for writing foreword for the book and Dr. Sudhir Fulzele, Director, Dr. Ambedkar Institute of Management studies and Research for his encouragement and support.

Dr. Ashutosh Arvindrao Paturkar

Dr. Ashutosh Arvindrao Paturkar is Professor & Dean Academics in Dr. Ambedkar Institute of Management Studies & Research. He received his masters' degree at Yashwantrao Chavhan Maharashtra Open University and Ph.D. at Nagpur University. He has many research articles to his credit. He is recognized supervisor for doctoral students at Rashtrasant Tukadoji Maharaj Nagpur University. He has engaged lectures as an adjunct faculty at BITS, Pilani.

He worked in the pharmaceutical industry for two decades and then moved to teaching. His core areas are Strategic Management and Marketing Management. He is also a visiting faculty at many management institutes.

He is offering consultancy in the areas of marketing, strategy and planning. He also conducts training programs for industry professionals in the area of Marketing, Strategy and Creativity.

He has received open merit scholarship during his graduation and also had a distinguished career as an NCC cadet. He had presented guard of honour to Honourable President of India, and was honoured as best NCC cadet in 1985. In the same year, he participated in the Maharashtra Day Silver Jubilee Parade.

He is a member of many professional associations and has held important positions.

During his spare time, he enjoys photography and painting.

CA Hemant Lodha (Jain)

Mr. Hemant Lodha, a chartered accountant by profession is an avid reader whose library interests include philosophy, spirituality, relationship building, leadership skills & management skills. Born in Jodhpur, to a respected family of limited means, he has been all over the globe before settling in Nagpur in 2002.

He has authored many books such as 'Words of Wisdom', 'Nectar of Wisdom', 'Shrimad Bhagwat Geeta Roopkavita', 'Ashtavakra Mahageeta Roopkavita', 'Kahi Ankahi', 'Samansuttam', 'Chankya Niti' 'A to Z Entrepreneurship' 'A to Z of Leadership'.

Being socially active, he is associated with several organizations and has founded "Helplink Charitable Trust" with a motto to LINK THE NOBLE AND THE NEEDY, mainly working in the field of education for deprived children.

He is presently working as a Managing Director of SMS Envocare Limited, a group company of SMS Limited.

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Foreword

"Five elements of organizational excellence" is not a typical strategic management text book. But it captures nuances of strategy as taught in any of the strategy courses. Discussions on strategies and their impact on the five elements are quite insightful.

Organizations can sustain and grow by Quality of their product, Quantity in terms of market share and Quickness in responding to the dynamic business environment. To excel on these objectives, Strategy, Structure, System, Resources and Relationships are the five pillars. Adding production processes to improve the quality of product is another dimension in the book. While emphasising the importance of quality of the product, authors have pointed out that the quality is no more a production function but a strategic function, in chapter on systems. The book provides insight into how to systematically improve the quality of product.

Organizations employ multiple strategies to achieve their goals. This book discusses these strategies and their impact on quality, quantity and quickness. The tabulation of impacts is yet another feature of the book. Book also discusses major frameworks used in strategy evaluation.

The frameworks discussed in the strategy course, as has been pointed out in the book, cannot be used alone. The strategy evaluation is the most critical phase of strategic management process and authors have done a wonderful job in suggesting the combination of frameworks to evaluate the strategy.

The strategy practitioners should understand that each organization must formulate its own "Five elements of organizational excellence". The elements are basic, but the combinations will have to be unique for the organization. I hope this book will give readers an understanding of what makes an organization not only sustainable but grow and develop unique approach towards excellence.

There is dearth of meaningful literature to highlight the above aspects, which makes this book useful for students and practitioners alike.

Prof. Krishna Kumar
Former Director, IIM Kozhikode
Former Professor and Dean (AA), IIM Lucknow

Background….

Dear Readers,

I am delighted to see my the business concept I have developed over last 38 years after reading 1000s of books on management and leadership and working in national and international corporates, has finally taken shape in form of book written by Dr. Ashutosh Paturkar. As we know that this entire universe is made up of five elements (fire, water, air, matter and space), I always had a inclination that there is something common among all organisation for creation, growth and sustainability. After developing this modal somewhere on 1998, I have applied its applicability in many organisation and found that it is complete in all respect and developed a faith that any organisation if they work as per this modal or framework, they are bound to have sustainable growth and excellence in operations of any organisation.

Once the business vision is finalised every organisation is looking for 3Qs. Quality in product and services, quickness in all processes and quantity in sales or deliveries to maximise profit and reduce per unit cost. These 3Qs are goal for any business or organisation. Now question arises how to achieve these 3Qs. The answer I found in 5 elements (3S+2R) and these are having right and effective Strategy in each and every function, robust and competent Structure of organisation, efficient Systems in the organisation, trust based Relationship among all stakeholders and optimum utilisation of all available Resources.

Dr. Ashutosh Paturkar has developed the modal diligently and written the book elaborately. I congratulate Dr. Ashutosh Paturkar for wonderful creation which will be useful for business leaders as well as management students.

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Chapter I

Is your organization healthy?

Health is wealth. Right?

Am I healthy? ....

What is health?

The state of being free from illness or injury. Right? Not anymore.

In 1948 WHO (World Health Organization) defined health as, "… a state of complete physical, mental, and social well-being and not merely the absence of disease or infirmity."

In 1986 WHO further clarified health as, "A resource for everyday life, not the objective of living. Health is a positive concept emphasizing social and personal resources, as well as physical capacities."

This means that health is a resource to support an individual's function in wider society, rather than an end in itself. A healthy lifestyle provides the means to lead a life full of meaning and purpose.

In 2009, researchers published in The Lancet defined health as the ability of a body to adapt to new threats and infirmities.

The best way to maintain health is to preserve it through a healthy lifestyle rather than waiting until sickness or infirmity to address health problems. People use the name wellness to describe this continuous state of enhanced well-being.

The WHO defined wellness as follows[i]:

"Wellness is the optimal state of health of individuals and groups. There are two focal concerns: the realization of the fullest potential of an individual physically, psychologically, socially, spiritually, and economically, and the fulfilment of one's roles and expectations in the family, community, place of worship, and other settings."

Now let's do a quick check…

Is my organization healthy?

We don't have a problem… Is the organization healthy?

We have our resources (man, machine, material, money…) to manufacture, our products are accepted by the customers, the suppliers are supplying as per our requirements, we are making profits… are we not a healthy organization?

Hmm… Perhaps not any more.

What is an organizational wellness?

If we draw parallel and go by the WHO definition of wellness to evaluate the organizational wellness we have to examine the optimal state of health of individuals (departments) and teams (groups, strategic business unit, company). There are two focal concerns: the realization of the fullest potential of an individual assets (physically), willingness to changes (psychologically), commitment to stake holders (socially), leadership with values (spiritually: conscious thoughts and emotions), and profitability (economically), and employees work life balance (the fulfilment of one's roles and expectations in the family, community, place of worship, and other settings).

The question is… How do I make my organization healthy?

Evolution of strategic management

In late 500, Sun Tzu authored a book called The Art of War, which contains 13 chapters that focus on military strategies and tactics. According to Sun Tzu, the positioning of an army was important and while doing so one should take into account the physical environment and subjective beliefs of one's opponents on the field. He emphasized the importance of responding quickly to the environment in order to appropriately meet changing conditions. In a static environment, planning works successfully, but in a dynamic and changing environment plans rarely work[ii].

Strategic management slowly blossomed into a distinct and important discipline over a five-decade period.

During 1950s the organization focus was on budgetary planning & control.
Financial control was through operational and capital budgeting. Investment planning was predominantly through **project appraisal, ROI** (Return on Investment)**, DCF** (Discounted Cash Flow) and financial planning was the key.

1960s witnessed corporate planning.
The strategy planners focused on preparation of short, medium and long term plans, business forecasting and investment planning models. 1960s also witnessed **rise of corporate planning departments.**

1970s the focus shifted to **corporate strategy, diversification, and portfolio planning matrices.** Diversification resulted into **multidivisional structure.** For growth and market share organizations started pursuing global markets.

Late 70s & early 80s organizations started industry and competitive analysis. Based on the industry analysis strategists determined the choice of industries, markets, and segments and positioning within them. The focus shifted to **competitor analysis and PIMS** (profit impact of market strategy), market selectivity, industry restructuring and active asset management.

Late 80s & early 90s. The quest moved for **competitive advantage**. Identification of sources of competitive advantage within the firm. Resource analysis of core competencies. Corporate restructuring and business process reengineering. Re-focusing and outsourcing.

Late 90s & early 2000. This was the era of strategic innovation and the new economy. Achieving competitive advantage through strategic innovation. Competing on knowledge and adopting to the new digital networked economy. Organisational flexibility and speed of response. Knowledge management and organisational learning. Competing for standards. Early mover advantage. The virtual organisation. The knowledge based firm. Alliances and networks. The quest for critical mass.

2000 – 2010. This period was regarded as unpredictable business environment that witnessed recession, sporadic instabilities in financial sector, financial meltdown across the world. Emerging third world economies paved way for new strategies for the corporation. Finding new and unexplored new international markets and outsourcing to cut down growing overheads were the symbol of the strategies. However, success to most of the organizations was short lived and companies resorted to both proactive and reactive strategies to survive and maintain sustained competitive advantage.

Evolution of strategic management

Period	Focus	Means
During 1950s	Budgetary planning & control	Project appraisal, ROI, DCF
1960s	Corporate planning	Business forecasting and investment planning models.
1970s	Diversification, and portfolio planning matrices	Multidivisional structure
Late 70s & early 80s.	Analysis of industry and competition	Competitor analysis and PIMS
Late 80s & early 90s	Competitive advantage	Corporate restructuring and business process reengineering.
Late 90s & early 2000	Competitive advantage through strategic innovation.	The knowledge based firm. Alliances and networks. The quest for critical mass.
2000 – 2010	Proactive & reactive strategies to survive & maintain sustained competitive advantage	Explore new international markets and outsourcing to cut down growing overheads

As the focus moved to competitive advantage and strategic innovation, organizations vision became significant for growth as well as sustainability. So did the role of the chief executive and his vision.

A vision or strategic intent is the desired future state of the organisation. It is an aspiration around which a strategist, perhaps a chief executive, might seek to focus the attention and energies of members of the organisation[iii].

Aaron De Smet[iv] (2014) et al. identified nine dimensions of organizational health, along with their thirty seven related management practices. The nine dimensions are Direction, Accountability, Coordination & control, External orientation, Leadership, Innovation & learning, Capabilities, Motivation & Culture and climate.

Direction, one among the nine dimensions, should focus on Shared vision, Strategic clarity, and Employee involvement. Similarly, accountability should focus on Role clarity, Performance contracts, Consequence management, and Personal ownership. The motivation comes from Meaningful values, Inspirational leaders, Career opportunities, Financial incentives, Rewards and recognition.

The authors further noted that, "…. the four clusters we identified from the data reflects a distinct underlying approach to managing, including core beliefs about value creation and what drives organizational success. Each can be described by the specific set of management practices prioritized by companies…" the four clusters identified from the data reflects a distinct organizational approach and can be described by a specific set of management practices are as follows…

1. **Leader driven:** Career opportunities, Inspirational leaders, Open and trusting, Financial incentives, Risk management

2. **Market focused:** Customer focus, Competitor insights, Business partnerships, Financial management, Government/community relationships

3. **Execution edge:** Knowledge sharing, Employee involvement, Creative and entrepreneurial, Bottom-up innovation, Talent development

4. Talent and knowledge core: Rewards and recognition, Talent acquisition, Financial incentives, Career opportunities, Personal ownership

Authors concluded that building organizational health can be a powerful lever for improving the long-term performance of companies. Leaders can't ignore this lever, given the accelerating pace of change facing most industries.
Companies can achieve organizational health in several ways— authors discussed the four significant ones. Gratifying simplicity masks hidden risks. Organizations need to choose their recipes and ingredients carefully, as the wrong mix may leave a bad taste in the mouths of employees, executives, and investors alike.

The four clusters approach; leader driven, market focused, execution edge and talent and knowledge core are critical for organizational sustainability and growth. The recipe and the ingredients must be chosen carefully. Organizational growth recipe and ingredients have changed over a period of time.

The nine dimensions and the four clusters determine the health of the organization. The way health has been redefined over the years, in order to keep the organization healthy strategists have employed multiple strategies.

We look at these strategies which aim at keeping the organization healthy.

Strategic management

To define, **strategic management** is the study of such set of managerial decisions and actions that determines the long run performance of a firm.

The major steps in the strategic management process are:

- Environmental analysis
- Strategy formulation
- Strategy implementation
- Strategy evaluation and control

Why strategic planning?

Strategic planning is necessary for the organization as it…

- Gives a clear vision of internal and external environment of a business firm
- Focuses on what is most important and how it is to be managed for success of business.
- Understanding of problem, its nature, its threats (challenges), its controls and implications.
- Appropriate decisions to implement the strategies evolved to achieve the desirable objectives.
- A continuous monitoring and evaluation of the progress through the path to the goals

The strategic planning process

The tasks in strategic planning are…

- **Clarifying the mission of the corporation:** A mission is a general expression of the overall purpose of the organisation, which, ideally, is in line with the values and expectations of

major stakeholders and concerned with the scope and boundaries of the organisation. It is sometimes referred to in terms of the apparently simple but challenging question: ***'What business are we in?'***

- **Defining the business:** The structure of product, service and information flows and the roles of the participating parties.
- **Surveying the environment:** The PESTEL framework categorises environmental influences into six main types: political, economic, social, technological, environmental and legal.
- **Internal appraisal of the firm:** The resources and competences that an organisation can use to provide value to customers or clients.
- **Setting the corporate objectives:** A general aim in line with the mission. It may well be qualitative in nature. An objective is more likely to be quantified, or at least to be a more precise aim in line with the goal.
- **Formulating the corporate strategy:** Strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.
- **Monitoring the strategy:** Involves monitoring the extent to which the strategy is achieving the objectives and suggesting corrective action

Every organization operates in two types of environment…

Macro environmental factors: The macro environmental factors are demographic, socio-cultural, economic, political, natural, technological, legal and government policies.

Environmental factors specific to business concerned are: The industry in which the firm operates, competition, technology, market/customer, supplier factors and government policies.

We discuss these factors and their impact on the firm later in this book.

Corporate & business strategy

Focus of strategic management shifted from planning process to quest for profit. The fundamental goal of business is to earn a return on its capital that exceed the cost of capital. There are two ways to attain this.

1. The firm may locate in an industry where favourable conditions result in the industry earning a rate of return above the competitive level.
2. The firm may attain a position of advantage vis-a-vis its competitors within an industry, allowing it to earn a return in excess of the industry average.

Corporate strategy defines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions include,

- Investment in diversification
- Vertical integration
- Acquisition
- New ventures
- Allocation of resources between the different business of the firm
- Divestment.

Business strategy

Business strategy is concerned with how the firm competes within a particular industry or market. This is also referred as competitive strategy.

The question is… How can the firm make money?

This leads to
- What business or businesses should we be in?
- How should we compete?

Answer to the first question describes "corporate strategy" and the second describes business competitive strategy.

Organizations failing is not surprising. Start-up failing is more common. Established companies too fail, not only to protect market share, but also to sustain. With large number of matrices for decision making, tons of information available. Multiple statistical tests to validate information and judge its utility, yet decision making is getting more complex.

Organizations employ strategies to achieve their objectives. An organization sets objectives based on the environment it operates in, responds to. While deciding the choice of strategy organizations take into account their strengths and weakness and assessment of opportunities and threats. Managers articulate plans and staff execute the plan. Managers keep monitoring execution and try to ensure that the events match with the plan. The control process. For any deviation from the plan corrective measures are employed; these were also probably either plan B or contingencies.

Now that is what probably every organization does. Then why is it that only a few of them succeed and many fail. Why is it that the established organizations also find it difficult to sustain; leave aside growth. It is not that managers working for the organizations did not have understanding of strategy. It is also not true that they employed wrong strategy. What we believe is they probably did not either had their priorities right or ignored a few basic strategy elements.

So apparently everything boils down to Strategy. Strategy has been defined by many authors. We look at some of the definitions of strategy….

Glueck[v], "Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process."

It lays stress on the following:
a) Unified comprehensive and integrated plan.
b) Strategic advantage is related to challenges of environment.
c) Proper implementation ensures achievement of basic objectives.

Another definition of strategy is given below which also relates strategy to its environment. **"Strategy is organization's pattern of response to its environment over a period of time to achieve its goals and mission."**

Strategy[vi] is the direction and scope of an organisation over the long term, which achieves advantage for the organisation through its configuration of resources within a changing environment and to fulfil stakeholder expectations.
This definition of strategy stresses on consequences and characteristics of strategy.
Strategic decisions are likely to be complex in nature. Strategic decisions may also have to be made in situations of uncertainty. Strategic decisions are also likely to demand an integrated approach to

managing the organization. They may also have to manage and perhaps change relationships and networks outside the organization, for example with suppliers, distributors and customers.

Strategy is characterized by four important aspects.
• Long term objectives
• Competitive Advantage
• Vector (represents magnitude and direction)
• Synergy

All organizations do take into account the consequences of strategic decisions. Organizations sustainability depends on the strategic decisions made by the top management. However, these decisions are made while responding to current business environment.

The terms frequently used in strategy, at times layman substitutes them for strategy, are defined here.

A Strategy is a unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment.

A Policy is a guideline for decisions and actions on the part of subordinates and is a general statement of understanding made for the achievement of objectives.

Tactics are the means by which previously determined plans are executed.

Programmes are a single use comprehensive plan laying down the principal steps for accomplishing a specific objective and sets an approximate time limit for each stage.

Procedures are the series of functions or steps performed to accomplish a specific task or undertaking.

Rules are the principle to which an action or a procedure conforms or is intended to conform.

In September 2014 McKinsey Quarterly discussion, moderated by *McKinsey Quarterly*'s Allen Webb, Professor Michael G. Jacobides (London Business School) said, "Yes, I think we may need new tools or frameworks. When the environment changes profoundly, the maps with which we navigate it may need to shift as well. For instance, from telco to health-care to computers, sector boundaries are changing or dissolving, and new business models are redefining the competitive landscape. So tools such as Michael Porter's five forces, created for a more stable, more easily definable world, don't just lose their relevance—they become actively misleading".

During the same discussions[vii] Professor Robert Grant (Bocconi School of Management) said, "I disagree with the notion that the world is changing and that this has somehow made our established strategy tools obsolete. Most changes in the business environment have been in degree rather than kind: the speedier diffusion of technology, the growing intensity of competition as a result of internationalization, increased concern over business's social and environmental responsibilities. Most of the core concepts and frameworks of strategy have not been devalued by change".

These observations suggest we need to relook at the frameworks not as how relevant they are today but more with respect to how to use them in decision making.

In this book we suggest **"5 Elements of Organisational Excellence".**

Basic Elements as 3 Qs for organizational growth:

Q 1: Quality: Product Quality in terms of quality of inputs, quality of process and quality of output development. With respect to Service quality, exceed the expectations.

Q 2: Quantity: Efficiency and variable cost and fixed cost

Q 3: Quick: Time targets and Eliminate unnecessary activities

These 3Qs are consequence of 3S + 2R

The 3S being

Strategy effectiveness: Strategy effectiveness needs to answer basic questions….

Where are you?
Where do you want to go?
What options do you have?
Choosing the correct option.

Structure staffing:

Functions/Departments
Levels
Recruitment
Job description
Training
Teams
Goals
Rewards

Systems efficiency

Within function
Across the processes
Internal checks & controls
MIS

2 R being

Resources:

The traditional resources

Money
Materials
Machine
Manpower

However, the resources are not restricted to the above four today the organization has to analyse its resources in terms of

Capabilities
Competencies
Available Resources in terms of *Physical Resources, Human Resources, Financial Resources, Intellectual capital, Unique Resources,* etc.

Relationship

Emotional bank account

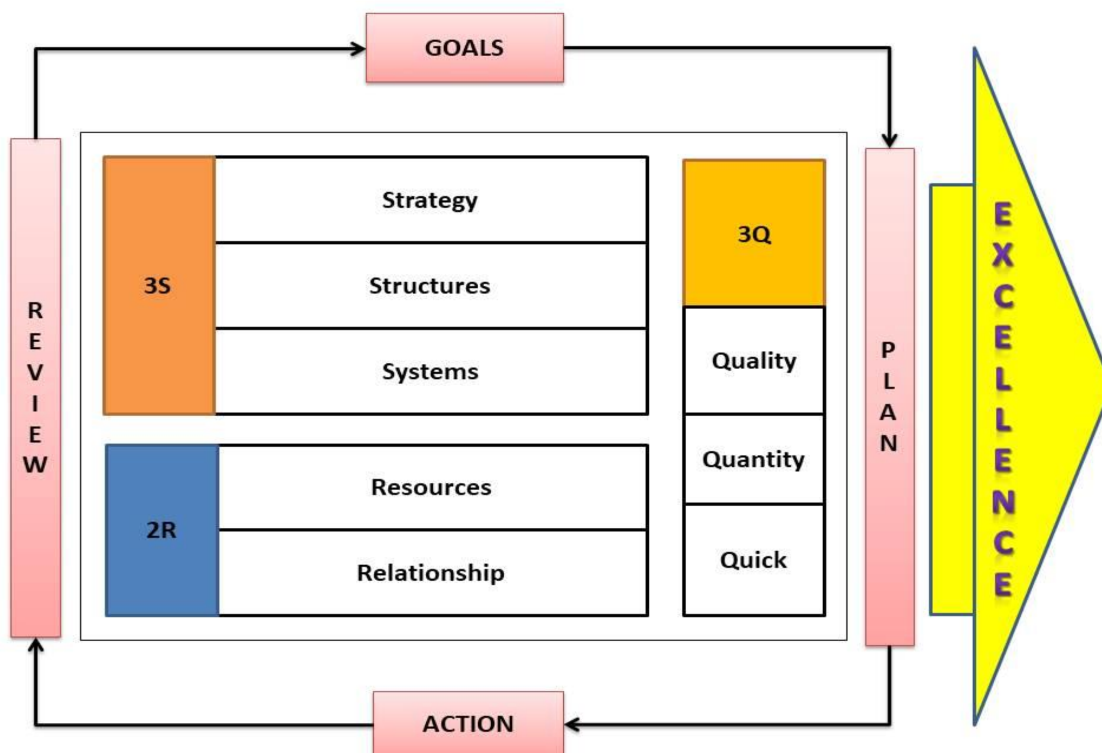
Honesty is foundation of trust and trust is foundation of relationship

Many established organizations faced the problem of sustainability. It is not just marketing myopia as described by Theodore Levitt; or inability to understand the environmental factors but values for which the organization stands.

The strategic management process generally practiced by organizations starts with the vision statement, followed by mission the organization has then to the SWOT (in this book we have discussed SWOC, challenge instead of threat) analysis, setting objectives developing strategies to achieve the set objectives, implementation and the review and control.

Interaction of these 5 elements is depicted below

Figure 1.1 Five elements of organizational growth



As described in the flowchart above, we suggest that for sustainability, organization should start with values, followed by vision, mission, strategic objectives and actions & KPI's.

Values: Should answer the question, "What does the organization stand for?" Ethics, principles and beliefs.

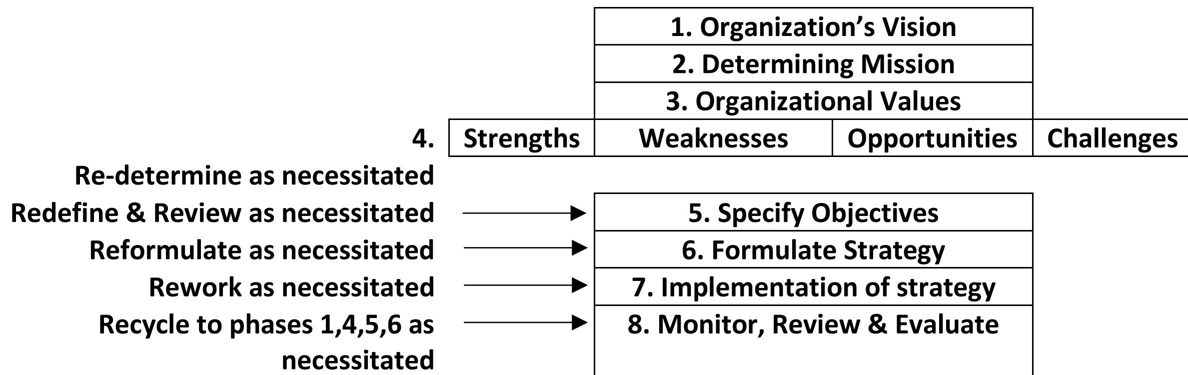
Vision: Should describe, "Where are we going?", "What do we aspire to achieve?" Hopes, ambitions

Mission: What do we do? What do we do it for? Motivation, Purpose

Strategic Objectives: How we are going to progress? Plan, goals, sequencing

Actions & KPIs: What do we have to do? How do we know? Actions, owners, timeframes, resources, outcomes.

Strategic Decision-Making Process



The triangle moves from Actions & KPI's as specific and tangible to Values which are aspirational, and through achievable strategic objectives, mission and vision.

We discuss all these at length with their importance and implications.

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Chapter II

The paradigm shifts: Rational for 5 Elements

In the early stages of development, strategic management concepts revolved around microeconomics. As the theory of firm addresses the question of why firms exist and what determines their scale and scope, other theories also revolved around this basic theme[i].

Several approaches to study strategy can be deliberated under two comprehensive streams of theories: competence-based theories and game-based theories. The competence-based theories take the organization theory perspective and focus on the process, whereas, game-based theories take the economic perspective and give importance to the governance viewpoint. Centred on these theories, two broad perspectives are followed:

Industry/organization perspective (called I/O model) and

Resource-based perspective (called RBV model).

Resource-Based View (RBV)

According to Barney[ii], sustained competitive advantage largely depends on the resources (assets, capabilities, organizational processes, firm attributes, information, and knowledge) a firm possesses. Although a firm's external environment is important, firm resources are far more important than the environment in which the company operates. RBV is based on two key assumptions…

1. Resources are heterogeneously distributed across all the firms, and
2. The firm's resources are largely immobile.

Taking into account these assumptions, a firm upholds competitive advantage if the resources possess the qualities of rarity, value, imperfect limitability, non-substitutability, and non-transferability. The supporters of RBV reason that competing firms will not be able to imitate strategies based on resources because there is fundamental ambiguity and social complexity associated with the relationship between these resource configurations and sustained competitive advantage. RBV has gained wide acceptance because its competence logic is quite convincing in explaining why some firms achieve success despite the fact that they fall under the industry that is not performing well. The core logic behind the RBV is the "capability logic" that states that a firm can outperform rivals only if it has a superior ability to acquire, develop, configure, and use the resources to sustain its competitive advantage. The basic argument of the RBV is that a firm's competitiveness is a positive function of the resource mobilization and capability building so that strategies are designed to capitalize on the opportunities and mitigate threats stemming from the environment. The way in which firms exploit and leverage internal abilities and resources is the key. Having superior resources is a necessary, but not sufficient, condition. What is important is that the resources and competencies need to be protected from exploitation by competitors through imitation and substitution.

Industrial Organization (IO) Theory

According to IO theory, industry forces in which a firm operates are very important for the firm to maintain profitability. The industry attractiveness depends on the strength of the five forces[iii]: competition of firms within the industry, bargaining power of buyers, bargaining power of suppliers, threat of new entrants, and availability of substitute products. The stronger the forces, the more unattractive the industry becomes. Analysis of these five forces is the key for a firm to see whether it can have an edge over its competitors. IO theory places a premium on the environment and is explicitly concerned with the opportunities and threats stemming from the environment.

Researchers who subscribe to the IO theory argue that a firm should scan the external environment and focus on identifying and exploiting opportunities and neutralizing threats. However, it is necessary to match the firm's internal capabilities to exploit opportunities and strengths, in order to mitigate the threats from environment. Strategic management researchers attempt to address the performance differences across firms in terms of two basic approaches: IO and resources. As Montgomery[iv] contends, a portion of these differences may be "due to unique firm characteristics and actions; and another portion is due to the conditions in their respective industries in which firms operate." Scholars argue that industry effects explain far more variance than firm effects. The debate is ongoing.

The dynamic nature of external environment is captured by John Sculley. He mentioned James E. Cook in his book, Odyssey: From Pepsi to Apple, as inspiring in formulation of contrasting Second Wave versus Third Wave management paradigms. Scully observes the characteristics of second wave and third wave are contrasting. For instance, output during the second wave was market share where as in third wave it is market creation. The mission in second wave was goals/strategic plans in third wave they are identify/directions/Values. If the quality was affordable best during the second wave it is no compromise in the third wave.

Thus in today's context every organization has to look at its own resources as well as the industry the organization operates in.

As noted earlier the strategic management as a discipline evolved during 1950s, organizations, particularly the American business community was engaged in intense merger activity. Like flocks of birds or of packs of wolves, mergers came in waves[v].

1. The first wave peaked between 1898 and 1902 to create monopolies
2. Second wave peaked between 1925 to late 1920s acquisition of related firms but did not create monopolies
3. Third wave 1966 to 1968 produced large conglomerate firms composed of unrelated business
4. Since 1974 the incidence of megamergers between large firms has dramatically increased and allowed these firms to diversify their holdings.

The strategic management was evolving and so were the marketing philosophies.

Philip Kotler[vi] listed Company Orientations to the Market place. The Five Concepts Described are

1. The Production Concept
2. The Product Concept
3. The Selling Concept
4. The Marketing Concept
5. The Societal Marketing Concept

The Production Concept is one the oldest concepts in business. The production concept holds that consumers will prefer products that are widely available and inexpensive. Managers of production-orientation business concentrate on achieving high production efficiency, low costs, and mass-distribution. They assume that consumers are primarily interested in product availability and low prices. The concept holds true even today where demand is more than supply and the organizations are looking forward to reducing the cost the expand the target market by achieving economies of scale.

The Product Concept orientation holds that consumers will favour those products that offer the most quality, performance, or innovative features. Managers focusing on this concept concentrate on making superior products and improving them over time. They assume that buyers admire well-made products and can appraise quality and performance. However, these managers are sometimes caught up in a love affair with their product and do not realize what the market needs. Management might commit the “better-mousetrap” fallacy, believing that a better mousetrap will lead people to beat a path to its door.

The Selling Concept holds that consumers and businesses, if left alone, will ordinarily not buy enough of the selling company’s products. The organization must, therefore, undertake an aggressive selling and promotion effort. This concept assumes that consumers typically show buying inertia or resistance and must be coaxed into buying. It also assumes that the company has a whole battery of effective selling and promotional tools to stimulate more buying. Most firms practice the selling concept when they have overcapacity. *Their aim is to* sell *what they make rather than make what the market wants.*

The Marketing Concept is a business philosophy that challenges the above three business orientations. Its central tenets crystallized in the 1950s. It holds that the key to achieving its organizational goals (goals of the selling company) consists of the company being more effective than competitors in creating, delivering, and communicating customer value to its selected target customers. The marketing concept rests on four pillars: target market, customer needs, integrated marketing and profitability.

The Societal Marketing Concept holds that the organization’s task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors (this is the original Marketing Concept). Additionally, it holds that this all must be done in a way that preserves or enhances the consumer’s and the society’s well-being.

The Holistic Marketing Concept[vii] is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing recognizes that “everything matters” in marketing and that a broad, integrated perspective is often necessary.

Considering the advances in the discipline of strategic management and marketing philosophies over the years, organizations need to focus on…

Quality of the product they offer in order to ensure acceptance by the target market

Quantity that the organization manufactures in order to make the accepted product affordable

Quick, organizations need to be quick in responding to the target market’s needs, wants, demands and transactions. Time targets and elimination of unnecessary activities.

Resources to make quality products, with economies of scale in quick time.

Relationships with the stake holders to understand and meet their needs, wants, demands and expectations better than the competitors.

In addition to resources and relationships organizations need to have suitable processes to achieve goals/objectives. To achieve these goals/objectives organization needs to have

Strategies to improve quality, quantity and quickness

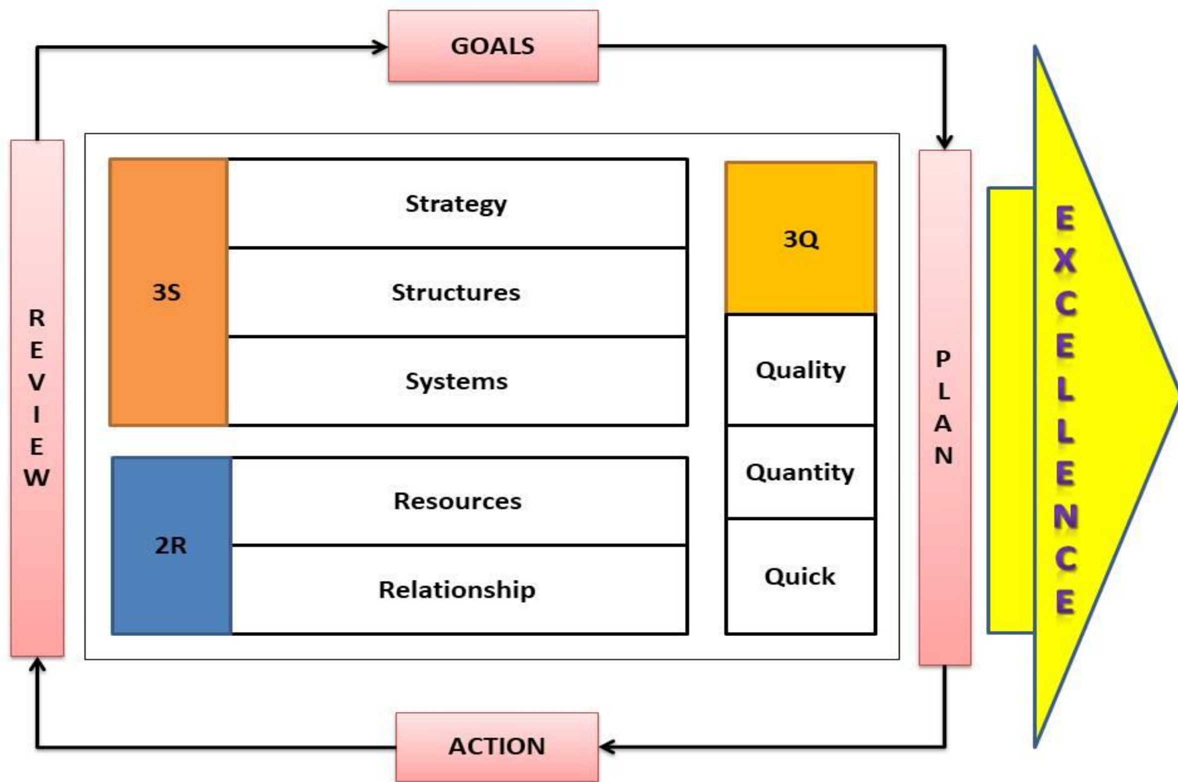
Structure to improve quality, quantity and quickness

Systems to improve quality, quantity and quickness

For organizational growth the 3Q with its five elements are of critical importance.

The five Elements

Five elements of organizational growth



First we look at the formulation of the organization's vision in the next chapter.

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Chapter III

The I have a dream – Vision

Vision serves the purpose of stating what an organization wishes to achieve in the long run.

Vision is for someday… Mission is for everyday!

Blue Star was founded in the year 1943 by Mohan T Advani, an entrepreneur of exemplary vision and drive. The Company began as a modest 3-member team engaged in reconditioning of air conditioners and refrigerators. The vision of the company is, "To dream, to strive, to care, and above all, to be the best in everything we do"[i]. In 2018 this company completed 75 years of existence.

The recession of 1953 hit the company and resulted in Mr. Mohan Advani realising that the company couldn't survive solely on the business of air-conditioning, because the war had played havoc with power situation. In addition, the socialistic government had also classified air-conditioners as luxury products and imposed crippling taxes, like an excise duty of 125 per cent. All this culminated in the company diversifying by acquiring the sole agency of what was then known as Schneider-Westinghouse (later known as Jeumont-Schneider), one of the foremost manufacturers of heavy electricals in Europe. In quick succession, the company acquired exclusive distributorship of manufacturers of international standing and repute. These new businesses became the base of machinery and the electronics divisions. The air-conditioning business grew and in the year 1956, the company began manufacturing packaged air-conditioners. The initial 10 years were spent by the company on set up and it became viable[ii].

By early 1960s, company had developed into a broad-based engineering company, marketing high technology products. The main emphasis was on engineering, industrial products and air-conditioning. The Company promoted Techni-Glass Ltd intended to make and market a new cellular thermal insulation called Cell-O-Therm, which failed miserably. The impact of this debacle was so strong that the company didn't want to do any new manufacturing for quite some time and decided to go the joint venture way[iii]. Besides in 1965, India had embarked on a war with Pakistan, thwarting the company's manufacturing ambitions. Its collaboration with Worthington, US to make a complete range of industrial and commercial refrigeration and air-conditioning equipment did not transpire because of the war; same thing had also happed with Honeywell. Therefore, blue star moved away from manufacturing as a business strategy and got further into distribution of imported high-technology engineering equipment – the mainstay of AC & R contracting. In its 25 years of existence, the company had undertaken innumerable large projects across commercial, industrial, educational and research organisations.

In 2003, Blue Star completed its 60 years of existence, reinvented itself again and again to keep in tune and adapt with the changing market conditions, thus strengthening its core and becoming more customer-centric. It also reduced its cost structure and maintained its leadership position. Company was B2B. As the company became 75 a big shift to the B2C segment. Company wants to reinvent and stay relevant.

Staying true to its vision.

Thus a Vision statement answers questions like…

Where we are going?

What do we aspire to achieve?

Hope & Ambition

Vision statement outlines what the organization wants to be, or how it wants the world in which it operates to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria (Wikipedia).

Growth of an organization can come through organic as well as inorganic path. But inorganic growth has to be complemented with organic growth. Blue star grew inorganically into the electrical as well as plumbing and fire-fighting segments after acquiring Naseer Electricals in 2008 and D. S. Gupta Construction in 2010[iv]. Blue Star after fortifying its position as an end-to-end service provider in the mechanical, electrical and plumbing (MEP) and fire-fighting segment, handled several integrated electro-mechanical projects in India and overseas as an integrated MEP service providers in the building, industrial and infrastructure segments. Blue star's growth thus came through market penetration as well as market development in the MEP and fire-fighting segment.

A vision statement gives organization's employees something to rally behind, and should organization choose to make vision statement public, it lets the world know where the company is going.

Having achieved growth through market penetration and market development. Blue star also concentrated on product development. Market was undergoing a rapid change in the central plant equipment segment, including product categories like ducted system, variable refrigerant flow (VRF), chillers, and domestic heating ventilation and air-conditioning (HVAC) opportunities. The first few distinctive changes were taking place in the packaged air-conditioning, under which variable refrigerant flow was slowly replacing the traditional ducting systems. Based on the dynamic market requirements, Blue Star launched the latest fifth generation VRF, which had a large capacity outdoor unit with 24-28 HP. The product offerings were highly efficient even in extreme ambient conditions, as they were designed to deliver full capacity at 43 Degree Celsius and were capable of handling a wide range of fluctuations. Company also introduced an easy-to-install pre-piped VRF, which enabled integrators to offer VRF technology in smaller towns. The company subsequently launched next generation, 100 per cent inverter VRF system 'Made for India' and is well-suited for the varying climatic conditions, as well as voltage fluctuations, faced across the country[v].

As part of its diversification strategy, Blue Star launched water purifiers, water coolers, air purifiers and air coolers to expand its offerings in the domestic retail market.

The Advanis and the team at Blue Star, with a consumer durables mind-set, are gearing and tuning in to spring out something out of the blue to stay relevant beyond the 75-year-old subsistence of the company.

Some of the vision statements are as follows….

Vision statement: "A personal computer in every home running Microsoft software." (Microsoft)

"To help people save money so they can live better." (Walmart)

"Land a man on the moon and safely return him to earth by the end of this decade." (John F. Kennedy)

Vision statements[vi]:

While developing vision statement organizations must

• Define what the organization aspires to be

• Reflect the ideal image of the organization in the future

• Include key values and beliefs

• Serve as a framework to evaluate current activities

• Be stated clearly so that it is understood by all

• Be a focal point for strategic planning and are time bound, with most vision statements projected for a period of 5 to 10 years

• Communicate both the purpose and values of the organization

• Shape clients' understanding of why they should work with the organization.

The vision statement focuses on tomorrow and what the organization wants to become. The mission statement focuses on today and what the organization does. While companies commonly use mission and vision statements interchangeably, it's important to have both. One doesn't work without the other, because having purpose and meaning are critical for any business[vii].

What is a mission statement? [viii]

It is the mission statement that drives the company. It is what company does/the core of the business, and from it comes the objectives and finally, what it takes to reach those objectives. It also shapes the company's culture.

Mission statement questions look like:

- What do we do?
- Whom do we serve?
- How do we serve them?

This trickle-down effect of a mission statement confirms its value at any company. Just by its definition, you can quickly see how a solid mission motivates a team to advance toward a common goal, because they started at the same place and they are working together to reach the same end-goal.

On the other hand, a weak mission — or no mission at all — can have the opposite effect.

Company: Tesla

Vision: To create the most compelling car company of the 21st century by driving the world's transition to electric vehicles.

Mission: To accelerate the world's transition to sustainable energy.

Why it is effective: What better word than "accelerate" in a mission to serve as the driving force behind what Tesla does. While boldly stating "best in the century" reflects loftier dreams in the vision.

Company: Amazon

Vision: To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.

Mission: We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience.

Why it is effective: Amazon's mission is cut-and-dry about what they offer to customers. The vision takes the offerings farther, saying their company will offer "anything" customers want.

Company: TED

Vision: We believe passionately in the power of ideas to change attitudes, lives and, ultimately, the world.

Mission: Spread ideas.

Why it is effective: The TED mission to "spread ideas" is a simple demonstration of how they serve. The vision is all about impact, how spreading ideas invokes change in the world.

Company: LinkedIn

Mission: To connect the world's professionals to make them more productive and successful.

Vision: To create economic opportunity for every member of the global workforce.

Why it is effective: LinkedIn succinctly captures what they do (connect) and who they serve (the world's professionals) in their mission. While the vision encompasses every working person in the world.

Company: Google

Vision: To provide access to the world's information in one click.

Mission: To organize the world's information and make it universally accessible and useful.

Why it is effective: Google may seem complex, but its mission clarifies that organization and accessibility are what they offer. Their vision statement is about improving accessibility in the future "in one click."

Company: Uber

Vision: Smarter transportation with fewer cars and greater access. Transportation that's safer, cheaper, and more reliable; transportation that creates more job opportunities and higher incomes for drivers.

Mission: Uber's mission is to bring transportation — for everyone, everywhere.

Why it is effective: Uber "transports," so it is the perfect actionable verb for their mission. The vision dives deeper into how their transportation services exist for the greater good of everyone.

Company: AirBnB

Vision: Tapping into the universal human yearning to belong—the desire to feel welcomed, respected, and appreciated for who you are, no matter where you might be.

Mission: Belong anywhere.

Why it is effective: In just two words, the Airbnb mission says "we help you feel at home." They explore a deeper sense of belonging in the vision, tapping into the universal human desire for which the company aims.

Company: Intel

Vision: If it is smart and connected, it is best with Intel.

Mission: Utilize the power of Moore's Law to bring smart, connected devices to every person on earth.

Why it is effective: Intel "brings smart, connected devices" to everyone in their mission. Their vision uses more boastful language, illustrating great confidence in the future of their solutions.

Company: Ferrari

Vision: Ferrari, Italian Excellence that makes the world dream.

Mission: We build cars, symbols of Italian excellence the world over, and we do so to win on both road and track. Unique creations that fuel the Prancing Horse legend and generate a "World of Dreams and Emotions."

Why it is effective: "We build to win" in Ferrari's mission focuses on the strength and quality of their product. In this ambitious vision, their cars will reach the pinnacle of "Italian Excellence."

Company: Toyota USA

Vision: To be the most successful and respected car company in America.

Mission: To attract and attain customers with high-valued products and services and the most satisfying ownership experience in America.

Why it is effective: Toyota's mission demonstrates what they are known for: products and service. Even in a highly competitive industry, their vision states that they will become the best car company in the country.

Company: Samsung

Vision: Inspire the world. Create the future.

Mission: Inspire the world with our innovative technologies, products and design that enrich people's lives and contribute to social prosperity by creating a new future.

Why it is effective: Samsung has a mixed bag for its mission and vision statements. Their vision lies within the mission, where they clarify how they "inspire the world" and "create the future."

Company: Wikimedia

Vision: Imagine a world in which every single human being can freely share in the sum of all knowledge. That's our commitment.

Mission: To empower and engage people around the world to collect and develop educational content under a free license or in the public domain, and to disseminate it effectively and globally.

Why it is effective: Wikimedia's mission motivates their team to move toward a common goal of empowerment and engagement. Their vision paints a future world where their company's commitment makes a lasting impact.

Company: Ebay

Vision: Our vision for commerce is one that is enabled by people, powered by technology, and open to everyone.

Mission: To be the world's favourite destination for discovering great value and unique selection.

Why it is effective: Ebay's mission uses "destination" to show their virtual company as a real place people come to. An ongoing focus on people and technology get into the "why" of their vision.

Company: Cisco

Vision: Changing the way we work, live, play, and learn.

Mission: Shape the future of the Internet by creating unprecedented value and opportunity for our customers, employees, investors, and ecosystem partners.

Why it is effective: Cisco decided on a blended mission and vision statement. Language like "shape the future" is more vision-oriented, but the mission talks about the people they serve.

Company: Sony

Vision: Using our unlimited passion for technology, content and services to deliver ground breaking new excitement and entertainment, as only Sony can.

Mission: A company that inspires and fulfils your curiosity.

Why it is effective: Sony gives a customer-focused touch to their mission by using "your." The "unlimited passion" and "ground breaking entertainment" messaging in their vision demonstrates innovation.

Company: Facebook

Vision: People use Facebook to stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them.

Mission: To give people the power to build community and bring the world closer together.

Why it is effective: Facebook's mission is focused on the community their platform promises. Their vision talks about why community matters, interweaving how they will "bring the world closer together" from the mission.

Mission vs. Vision: Know who you are and where you're going

The mission statement focuses on today and what we do, and the vision statement focuses on tomorrow and what we want to become. Both are important to a company's survival.

Call it the essence, beating heart, or the defining characteristic — whatever one calls it, make sure that the company's mission and vision are clearly defined and understood for the sake of company's content and the company.

Get a content mission and a content vision statement down on paper. Share it with the team members. Then measure company's future content efforts against the two. And although they are not slogans or taglines themselves, they should definitely help inform them and all company's content.

Knowing who you are and where you're going is the foundation of an organization's success.

Miller and Den[ix] defined vision as the "category of intentions that are broad, all-inclusive and forward thinking"

The definition lays stress on the following:

Broad and all-inclusive intentions;

Vision is forward thinking process.

A few important aspects regarding vision are as follows:

It is more of a dream than articulated idea.

It is an aspiration of organization. Organization has to strive and exert to achieve it.

It is powerful motivator to action.

Vision articulates the position of an organization which it may attain in distant future.

Firm must develop Vision keeping in mind the three Qs; Quality, Quantity and Quick. Customers do not buy the best nor they reject the worst. They buy what gives them value. The 3Qs are the outcome of 3S and 2R. the three S; strategy, Structure and System must address to how customers value company's products. Firm thus must understand the customer vision of quality while developing the product. Firm must look at the target market and quantity required to cater to the market efficiently while managing cost. Customers to day give minimum lead time. Firm must be quick in responding to customer's time targets by eliminating unnecessary activities.

Firms vision towards the 2Rs, Resources in terms of money, material, machine and manpower will determine how customers value the firm. Firms vision in minimizing cost of capital, use of appropriate material, employment of machinery which generates surplus and value and the human resources will be key differentiators.

Firms vision about relationships with its suppliers, employees, trade and customer will be critical in dealing with dynamic market conditions.

Values that the firm sets out with will have to be complemented with the vision to create value for all the stake holder.

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Chapter IV

I am on a Mission

Committed to growth.

"We have a leadership position in UVs, while two-wheelers and trucks are adjacent to our core business. When I joined the company in 1991, I was advised to get out of the automotive business, as 'we had no hope of getting scale in automotive'. Fortunately, we proved them wrong. We invested in the Scorpio, we invested in technology.

But where I think scaling up is required, is in the back end. We have to mimic the scale of the major players. And, if we are in other areas of mobility as well (two-wheelers and trucks), then the combined scale grows larger.

The important thing is that the front end of these mobility businesses stays independent and is agile and quick. But, in the back end, when it comes to R&D, purchasing, logistics, as well as human resources across these groups with similar competencies, we are beginning to mimic a far larger mobility organisation.

We are committed to growing our presence in commercial vehicles business through our truck and engine manufacturing companies. We would focus on further leveraging synergies between these two businesses and the Mahindra group to make the commercial vehicles business a success."

…. Anand Mahindra, Mahindra & Mahindra, Business India March 17, 2013.

While a vision statement answers questions like…

Where we are going?

What do we aspire to achieve? And speaks of

Hope & Ambition

A mission of the organization should answer questions like…

What do we do?

Who do we do it for? And speaks of

The Motivation & Purpose

A mission is a general expression of the overall purpose of the organisation, which, ideally, is in line with the values and expectations of major stakeholders and concerned with the scope and boundaries of the organization. It is sometimes referred to in terms of the apparently simple, but actually challenging question: "What business are we in?"[i]

Mahindra & Mahindra's farm equipment division, though non-glamorous, is backbone of the company. From being one amongst the four or five tractors companies, M&M became world's largest tractor selling company (by volume) in 2009. Company expanded its capacity by building up scale in small, medium and large horsepower (HP) segments. More than expanding the product range by entering the lower and the higher end HP segments, company's initiatives aimed at changing the very DNA of the division are particularly noteworthy. Mr. Anand Mahindra's vision was to "Bringing prosperity to the farmers" and the "objective was to enlarge the value space of brand Mahindra and move the brand from the tractors the agriculture value space by delivering farm tech prosperity[ii]."

M&M created a separate vertical, AppliTrac, a centre of excellence with design, development and manufacturing facilities. Launched a host of farm equipment, like the Harvester combine wheel track. To mitigate the growing labour shortage in the country, a rice-transplanter was introduced in

Punjab and southern markets. Considering that most of the farmers having insufficiently large tracts of land to justify investment for costly equipment, M&M launched tractor mounted harvest, which besides solving the on-going labour shortage, resulted in uniform spacing and rationalising the seeding process, all of which resulted in improving productivity and quality.
Apart from expanding the farm equipment range, with the objective of providing total solutions to farmers, opened Mahindra Samriddhi centres or knowledge centres, which also have laboratories for soil testing and offers advice to farmers in getting the best crop for the soil. With a view to allow farmers to get a fair price for their products, in a limited way company started buying their produce. Company started exporting grapes and emerged as one of the largest grape exporters from India.
Pawan Kumar Goenka, Managing Director of Mahindra and Mahindra Limited, foresees the "FES division by 2020 will be more of an agri-company rather than a tractor company"[iii].
Chief Executive, Tractor and Farm Mechanisation Business (Farm Equipment Sector), Bishwambhar Mishra, Pawan Kumar Goenka and Mr. Anand Mahindra all set out with the mission.

Thompson[iv] states mission as the "essential purpose of the organization, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy.
The above definitions highlight following points:
i) Mission is the essential purpose of organization.
ii) Mission answers "why the organization is in existence".
iii) Mission is the basis of awareness of a sense of purpose.
iv) Mission fits its capabilities and the opportunities which government offers.

M&M's FES division's essential purpose was to ensure farmers get a fair price for their products. It initiated Samriddhi centres, extended product lines with a sense of purpose. The mission did fit with its capabilities and the opportunities which government offered.

In the last chapter we have seen the difference between vision statement and the mission statement. We have also seen why and how the vision and mission statements are effective. As we have discussed **Vision is for *someday*** whereas **Mission is for *everyday***. To be effective, a mission statement must possess the following essential characteristic:

i) A Vision statement is where the organization would like to be someday the mission statement is about today, every day. Thus the mission statement should be realistic and achievable on day to day basis. Unrealistic statements do not motivate people. Aims should be developed in such a way so that may become feasible.

Anand Mahindra started restructuring the company since 1990s. The aim was to transform M&M from an underperforming, overstaffed, low profit automaker to an industry leader. Labelled an old economy company which could not survive in the rapidly shifting, liberalised environment from competitors in India and overseas. A plethora of businesses build during the license Raj saw the company venture into unrelated businesses, like oil rigs, instrumentation, elevators and sintered products. Notwithstanding the ongoing restructuring started in late 1990s and early 2000, M&M was still looked on as a proxy for rural play with its fortunes largely linked to the weather Gods benevolence.
Some of the key measures undertaken can be broadly classified as creating value for shareholders through its focus on R&D, innovation, quality and customer-centricity[v].

ii) As the mission statement should be realistic and achievable it should be precise as well.

Neither too broad nor too narrow. A broad mission statement may become meaningless, whereas a narrow mission statement limits an organizations activity. M&M FES division had a clear objective as put by Mr. Anand Mahindra, "The objective is to enlarge the value space of brand Mahindra and

move the brand from the tractors the agri value space by delivering farm tech prosperity." This led to creation of AppliTrac and host of farm equipment.

iii) Since the mission statement is action oriented, mission statement should not be ambiguous. At the same time articulation of the mission statement should not be philosophical as it does not give clarity.

iv) To be impactful the mission statement should be distinct.

v) Organizations operate in an external environment which impacts long term sustainability. Vision and mission statement thus should have societal linkage. Linking the organization to society builds long term perspective in a better way. E.g. creating job opportunities, reinvesting profits etc.

vi) As has been pointed out earlier the business environment is dynamic. The mission statement thus should not be static.

vii) Motivation can be defined as a need that is sufficiently pressing people to act. Mission statement being action oriented, it should be **motivating** for members of the organization and society. The employees of the organization may enthuse themselves with mission statement.

viii) The mission statement should indicate the **process of accomplishing** objectives. The clues to achieve the mission will be guiding force.

Objectives and Goals

Having determined its mission, the organization's objective, preferred future positions that it wishes to accomplish, should be ascertained. Organizational objectives are defined as ends which the organization seeks to achieve by its existence and operation. Objectives denote sought after results which the organization aspires to accomplish. They indicate the specific domain of aims, activities and accomplishments. An organization can have objectives in terms of profitability and productivity. Objectives offer a path to the organization and all the divisions work towards the accomplishment of the set objectives. Objectives and goals are the terms which are used interchangeably.
Organization must assess the process identifying the objectives of each functional area. Once these objectives are accomplished, the overall objectives of the organization are achieved. Organization's mission is the foundation for strategy. Objectives are other factors which determine the strategy. By choosing its objectives, an organization commits itself for these.

Once the company values are determined and vision statement drafted, company has to accomplish its mission. A mission is for every day.
M&M transformed itself in the changing business environment with clear values, vision and mission.
On **quality** front, company's focus on R&D, innovation, quality and customer-centricity led to delivering value to customers. For the **quantity** company leveraged its group companies. **Quickness** in responding to customer needs was through timely launching products to customer needs. **Strategy** was to offer affordable product to farmers, building its relationship with all stakeholders, and responding quickly to customer's need, transformed the company.
Company **re-structured** itself and integrated well with acquisitions. M&M's joint ventures, the ones with Ford and Renault did not last long. For growth in the commercial vehicles business company leveraged synergies between truck and engine manufacturing. Launched new models. A **system** of having a unified back-end in R&D or pooling of sourcing requirements was a big plus for the group despite having a different front end.

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Chapter V

I have Values to live by…

"Ethics is *not* a mystic fantasy—nor a social convention—nor a dispensable, subjective luxury.

... Ethics is an *objective necessity of man's survival*—not by the grace of the supernatural nor of your neighbours nor of your whims, but by the grace of reality and the nature of life." – Ayn Rand, The Virtue of Selfishness.

Every organization must keep values at the top or pyramid while developing strategies. Even above the vision and mission. As discussed earlier Strategic management is the study of such a set of managerial decisions and actions that determines the long run performance of a firm. The major steps in the strategic management process are environmental analysis, the SWOC (Strengths, Weaknesses, Opportunities and Challenges) analysis, strategy formulation, strategy implementation and strategy evaluation and control.

Environmental analysis with respect to SWOC analysis. It is important to discuss SWOC instead of SWOT analysis. Strength, Weakness, Opportunities and CHALLENGES instead of calling it THREATS. Strategy developers should look at challenges of sustainability more than the threats coming from the environmental factors. Strengths and Weakness come from the internal environment of the firm, which is resource-based view for strategic management. The Opportunities and Challenges come from the external environment for which large number of frameworks have been developed.

Strategy formulation deals with decision making and action plan to determine long run direction and performance of the organization. Strategic management[i] includes understanding the strategic position of an organization, strategic choices for the future and turning strategy into action.

Strategic position is concerned with the impact on strategy of the external environment, internal resources and competences, and the expectations and influence of stakeholders[ii]. The strategic choices involve understanding the underlying bases for future strategy at both the corporate and business unit levels and the options for developing strategy in terms of both the directions and methods of development.

Broadly the strategic management process, as suggested by C. K. Prahalad, comprises of five steps. They are:

1. Strategic Intent
2. Environmental Analysis
3. Evaluation of strategic alternatives and choice
4. Strategy Implementation
5. Strategy Evaluation and Control

Strategic intent is the desired future state of aspiration of an organization. Strategic intent is gaining more importance as the business environment is getting more dynamic, sustainability is getting more and more critical. Technological advances, global integration of economies, accelerated cultural shifts are some of the factors contributing to dynamic business environment. Dynamic business environment makes the environmental analysis that much more difficult.

Strategy planners have choice of multiple strategies. Depending upon the goals and objectives, various strategies that can be employed by the organizations are listed below…

The four grand strategic alternatives as suggested by Glueck are Stability, Expansion, Retrenchment, and Combination.

Apart from these four grand strategies, different strategies which are used commonly are as follows:

Modernization, Integration (Vertical integration, horizontal integration), Diversification (Concentric diversification, Conglomerate diversification, Horizontal diversification), Joint Ventures, Strategic Alliance, Mergers, Acquisition, Takeovers, Divestment, Turnaround Strategy

All these strategies are well studied and documented. However, the major problems take place at the time of strategy implementation. One of the reasons why all organizations do not succeed to the same degree despite implementing similar strategies is the implementation process.

This is where we feel the importance of values that the organization holds, "What do we stand for? Ethics, Principles and Beliefs. Organizational values are also critical during strategy evaluation and control phase as well.

Even for an organization, ethics should neither be a mystic fantasy nor a social convention nor a dispensable, subjective luxury.

Ethics

Richard William Paul and Linda Elder[iii] define ethics as "a set of concepts and principles that guide us in determining what behaviour helps or harms sentient creatures".

The Cambridge Dictionary of Philosophy[iv] states that the word "ethics" is "commonly used interchangeably with 'morality' ... and sometimes it is used more narrowly to mean the moral principles of a particular tradition, group or individual."

Paul and Elder[v] state that most people confuse ethics with behaving in accordance with social conventions, religious beliefs and the law and don't treat ethics as a stand-alone concept.

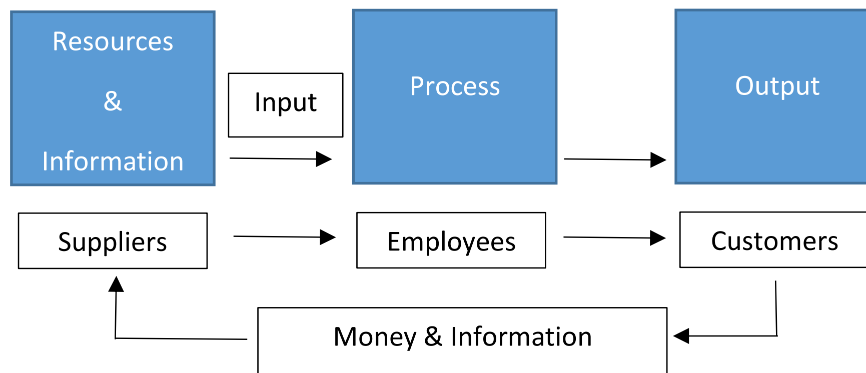
These definitions emphasize ethics as a set of concepts and principles that guide individuals which are also applicable to organizations as well.

Wikipedia defines business ethics as a form of applied ethics or professional ethics, that examines ethical principles and moral or ethical problems that can arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Ayn Rand in her book The Virtue of Selfishness[vi] has critically analysed why one should be selfish. She says, "It is not a man's ancestors or relatives or genes or body chemistry that count in a free market, but only one human attribute: productive ability. It is by his own individual ability and ambition that capitalism judges a man and rewards him accordingly". The same holds true for every organization as well.

Established organizations have failed because they lacked productive ability in terms of delivering products to continuously delight customers. Value is always in the eyes of beholder. Simply addressing, value is benefit to cost ratio. At operational level, value as benefit to cost ratio context is correct. But in the context of corporate level strategy value refers to what do we stand for with respect to ethics, principles and beliefs for all the stake holders.

The Organizations Module has following process.



Organization uses its resources and information.

In the same book, Nathaniel Branden[vii], "Alone on a desert island, bearing sole responsibility for his own survival, no man could permit himself the delusion that tomorrow is not his concern, that he can safely rest on yesterday's knowledge and skills, and that nature owes him "security." Organizations need to keep it in mind that yesterday's knowledge and skills are not enough.

Elaborating on the value in first chapter of the book, The Objectivist Ethics[viii], Ayn Rand writes, "*Value* is that which one acts to gain and/or keep—*virtue* is the act by which one gains and/or keeps it. The three cardinal values of the Objectivist ethics—the three values which, together, are the means to and the realization of one's ultimate value, one's own life—are: Reason, Purpose, Self-Esteem, with their three corresponding virtues: Rationality, Productiveness, Pride.

The three cardinal values should be guiding principles of the organization. Organization when sets up its ultimate value must pay attention to Reason, Purpose, Self-Esteem with their corresponding virtues: Rationality, Productiveness, and Pride.

Value	**Virtue**
Reason	Rationality
Purpose	Productiveness
Self-Esteem	Pride.

Values associated with resources

Michael Porter developed a five forces framework for analysing the competitive environment, which helps in understanding how forces in the competitive environment shape strategies and affect performance. The five competitive forces framework suggests that there are competitive forces other than direct rivals which shape up the competitive environment. The competitive forces are

1) The rivalry among firms in the industry

2) The threat of new entrants

3) The availability of substitute products

4) The bargaining power of suppliers

5) The bargaining power of buyers

Though there are missing links in the model, which will be discussed later in this book. The model does help in understanding the business environment. All the forces come from the external environment, to which the firms respond. The resources to deal with the external environment of the firm come from its internal environment. To compete firms must look at its internal environment in terms of its strengths and weakness.

When the firm looks at its internal environment it analyses….

- Value system: Choice of business, mission and objectives, business policies and practices.
- Vision, Mission and Objectives
- Management structure and nature
- Internal power relationship
- Human resources
- Company Image and brand equity, Infrastructure, R&D, Marketing resources, Financial factors

For each of these components firm must analyse the Reason, Purpose, Self-Esteem, with their three corresponding virtues: Rationality, Productiveness, Pride.

Value System: While deciding on the choice of business the firm shall be doing; firm must consider inherent strengths.

When Ratan Tata took over as chairman, the Tatas were already the largest and most respected business houses in India – then a century old[ix]. It was during his predecessor, JRD Tata, a new thrust was given to the Tata companies: from Tata Steel to Tata Power to Indian Hotels. N. A. Soonawala, Tata stalwart and the then finance director, confirmed that "growth through mergers, amalgamations and acquisitions will be part of our strategy in the 1990s". At the same time Farokh Kavarana, a director of Tata Sons, said the focus would be on a major international presence, first through trading opportunities and then by setting up manufacturing bases, mainly auto ancillary units. This was the time when government controls were all pervasive, banks and insurance companies were nationalised. The license quota Raj reigned supreme. The socialist-minded government always threatened conversion of loans from government institutions into equity and held the threat of nationalisation over industries like iron ore mining, steel and power.

Vision, Mission and Objectives.

A vision is the desired future state of the organisation. It is an aspiration around which a strategist, perhaps a chief executive, might seek to focus the attention and energies of members of the organization[x]. A vision statement refers to what a firm wish to achieve in the long-run, usually in a time frame of five to ten years, or sometimes even longer. It describes a vision of what the firm will look like in the future and sets a distinct direction for the planning and execution of corporate-level strategies.

A mission is a general expression of the overall purpose of the organization, which, ideally, is in line with the values and expectations of major stakeholders and concerned with the scope and boundaries of the organization. It is sometimes referred to in terms of the apparently simple, but actually challenging question: "What business are we in?"[xi].

Objective is more likely to be quantified, or at least to be a more precise aim in line with the goal. Goal means a general aim in line with the mission[xii]. It may well be qualitative in nature.

In 1991, Ratan Tata's very first challenge was to re-establish the primacy of Tata Sons[xiii]. He also wanted to ensure that all the Tata companies were attitudinally together. Dr. Manmohan Singh's reforms had kicked off that year, industrial licensing was abolished, and the capital markets had come alive. The Tata Companies used the first few years to beef up their capital. And with their reputation for integrity and transparency Tata company stocks were amongst those favoured early, by domestic and foreign investors alike. It was this rock-solid reputation that proved invaluable in helping the Tata's, almost a decade later, fund all the expansions oversea.

Value systems helped Tata group.

Management structure and nature:

A firm develops strategies in line with the organizations values, vision, mission and objectives. A management structure is required to executive these strategies. Companies management structure defines the roles, responsibilities and accountabilities of all towards achieving organizational objectives. It also describes the formal relationship between various departments within the organization. A well-defined management structure not only makes decision making structured it also expedites the decision making.

Internal power relationships are also very crucial in decision making as well as strategy execution. Firms have to continuously monitor internal environment of the firm with respect to human resources, company image and brand equity, infrastructure, R&D, marketing resources, financial factors as they are influenced by the external factors, particularly the macro environment.

In case of the Tata group, though the road map was created by N. A. Soonawala and Farokh Kavarana, much of these overseas plans had to wait for almost a decade[xiv]. India was in the throes of its worst economic crisis, and foreign exchange reserves were totally depleted. The country was on edge of default. It is therefore not surprising that for many of the first few years Tata's CEOs continued in the same mould. Tata giants like Darbari Seth, Nani Palkhivala, Tobacowalla were still in key positions. Thus, Ratan Tata's early phase was focussed on the implementation of retirement policies and consolidation of the business.

As discussed earlier ethics is, "a set of concepts and principles that guide us in determining what behaviour helps".

Principles are a fundamental truth or proposition that serves as the foundation for a system of beliefs or behaviour or for a chain of reasoning.

Beliefs are an acceptance that something exists or is true especially one without proof. Trust, faith, or confidence. It is a descriptive thought that a person holds about something.

Value is that which one acts to gain and/or keep—*virtue* is the act by which one gains and/or keeps it. The three cardinal values of the Objectivist ethics—the three values which, together, are the means to and the realization of one's ultimate value, one's own life—are: Reason, Purpose, Self-Esteem, with their three corresponding virtues: Rationality, Productiveness, Pride.

When we apply the reason, purpose and self-esteem while employing cost leadership strategy we need to consider how that is going to impact economies of scale, cost reduction through employee experience, tight cost and overhead control and marginal customer account.

It is important to attach value to resources and information. Based on what has been discussed in the internal environment of the firm strategy formulators can make a check list on the following lines......

Element	Reason (Value)	Rationality (Virtue)
Value system: Choice of business, mission and objectives, business policies and practices.		
Vision, Mission and Objectives		
Management structure and nature		
Internal power relationship		
Human resources		
Company Image and brand equity, Infrastructure, R&D, Marketing resources, Financial factors		

Same evaluation needs to be done for

Element	Purpose (Value)	Productiveness (Virtue)
Value system: Choice of business, mission and objectives, business policies and practices.		
Vision, Mission and Objectives		
Management structure and nature		
Internal power relationship		
Human resources		
Company Image and brand equity, Infrastructure, R&D, Marketing resources, Financial factors		

And finally

Element	Self Esteem (Value)	Pride (Virtue)
Value system: Choice of business, mission and objectives, business policies and practices.		
Vision, Mission and Objectives		
Management structure and nature		
Internal power relationship		
Human resources		
Company Image and brand equity, Infrastructure, R&D, Marketing resources, Financial factors		

As is widely accepted, top line is vanity, bottom line is sanity and cash flow is reality. If reason for economies of scale is to be competitive, rationality should look at potential demand.

Every organization develops strategies to respond to the environment. As discussed in the earlier chapter an organization can choose from multiple strategies. However, Michael Porter gave three generic strategies.

The three generic strategies suggested by Michael Porter[xv] are

1. Cost leadership
2. Differentiation and

3. Focus

Generic strategies are business level strategies. To achieve cost leadership, the organization has to develop efficient economies of scale; has to rely on cost reduction from experience of its employees; the process should ensure tight cost and overhead control; on customer front organization should avoid marginal customer accounts; should also ensure cost minimization on all fronts viz. inventory control with the help of suppliers and receivables from customers.

All organizations to achieve cost leadership are employing / working on employing these factors. For competitive advantage organizations values in terms of ethics, principles and beliefs should be employed.

Differentiation is another generic strategy, which like overall cost leadership aims at industry wide strategic target, or broad strategic target. Overall cost leadership strategy aims for price competitiveness as strategic advantage; differentiation aims at achieving strategic advantage in terms of uniqueness perceived by customers. While overall cost leadership is a production oriented strategy, differentiation is positioning strategy. Positioning is always in the mind of customers. Organizations can go for tangible or intangible differentiation. Design, Packaging, Style, Composition, are tangible for which there are less barriers to followership from competitors. Whereas Quality, Image, Brand, Company reputation, and Customer preferences are intangible components of differentiation and for high barrier to followership from competitors.

A firm with healthy internal environment can employ differentiation strategy even where tangible differentiation is difficult. For instance, cement. Large buyers of cement depend on delivery schedule. Storage costs of bulky products like cement are quite high. Institutional buyers benefit more by reducing the storage cost of bulky products. If an organization by virtue of its logistics excellence reduce storage costs of buyers, buyers have every reason not to bargain on price for products which are like commodity.

Components of internal environment can help organization differentiate its output from competitors. Human resources, Company Image and brand equity, Infrastructure, R&D, Marketing resources, Financial factors are major internal components are powerful differentiators.

Differentiation allows firm some protection from low cost competitors. Because of the differentiation brand loyalty is higher and the competitive advantage is sustainable. On the other hand, differentiation has its own limitations as well. There is a possibility of uniqueness not valued by the target market. There is also possibility of loss due to differentiation.

Third generic strategy focus has a niche or narrow target scope. What makes focus strategy attractive to planners is its nature by virtue of which it helps firm defend against competitive forces identified by Porter. Since firms create a niche of its own, threat of substitute products and new entrants are less. Focus also reduced bargaining power of customers. Focus strategy has two dimensions namely focus cost leadership and focus differentiation. The risks that organizations run while employing focus strategy are the niche may not be big enough and time to come the segment may become less distinct because of macro factors.

Focus promotional strategy has created a distinct image for Burnol. Burnol Cream is a combination medicine used for the treatment of burns. It provides immediate relief in burns, prevents infection and helps in quick healing[xvi]. This medicine is used for the treatment of minor burns by preventing infections and promoting the process of healing. Though the active ingredients [Aminacrine (0.1

%w/w) + Cetrimide (0.5 %w/w)] are antiseptic, focused promotion of the Burnol for minor burn injuries has given the brand a distinct position.

The Ansoff Matrix[xvii] is a strategic planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth. It is named after Russian American Igor Ansoff, an applied mathematician and business manager, who created the concept. Ansoff, in his 1957 paper, provided a definition for product-market strategy as "a joint statement of a product line and the corresponding set of missions which the products are designed to fulfil". He describes four growth alternatives for growing an organization in existing or new markets, with existing or new products.

	Existing Market	New Market
Existing Product	Market Penetration	Market Development
New Product	Product Development	Diversification

Market penetration

In market penetration strategy, the organization tries to grow using its existing offerings (products and services) in existing markets. In other words, it tries to increase its market share in current market scenario. This involves increasing market share within existing market segments. This can be achieved by selling more products or services to established customers or by finding new customers within existing markets. Here, the company seeks increased sales for its present products in its present markets through more aggressive promotion and distribution.

As the awareness about maintaining the personal hygiene increased Dettol introduced more products to cater to the market. Bar soaps, liquid handwash, hand sanitizer, antiseptic liquid, disinfectant liquids, plaster, body wash, kitchen gel, shaving cream[xviii]. Having products suited for customer needs the company not only got excellent market penetration but created unique value for the brand.

Market development

In market development strategy, a firm tries to expand into new markets (geographies, countries etc.) using its existing offerings and also, with minimal product/services development. Once a firm establishes itself in a particular geography, for growth the firm identifies other markets where the demographic profile of the customers is similar.

Similar demographic profile may include economic conditions, favourable political and social cultural factors, technological factors, regulatory conditions etc.

Product development

In product development strategy, a company tries to create new products and services targeted at its existing markets to achieve growth. This involves extending the product range available to the firm's existing markets. Dettol did increase the product range to cater to personal hygiene market.

Diversification

In diversification an organization tries to grow its market share by introducing new offerings in new markets. It is the riskiest strategy because both product and market development is required.

However, a due diligence with respect to attractiveness of the market and company's strengths the risk can be minimized.

Related Diversification— there is relationship and, therefore, potential synergy, between the firms in existing business and the new product/market space. Concentric diversification, and Vertical integration.

Unrelated Diversification: This is otherwise termed conglomerate growth because the resulting corporation is a conglomerate, i.e. a collection of businesses without any relationship to one another. A strategy for company growth by starting up or acquiring businesses outside the company's current products and markets.

Diversification consists of two quadrant moves so is deemed the riskiest growth option. Both integration strategies add value to the organization as it reduces dependence on suppliers or distributors in case of vertical integration. Strategists, however, must remember that you cannot run two businesses at the margin of one!

As discussed earlier Glueck[xix], listed four grand strategic alternatives…

- Stability
- Expansion
- Retrenchment
- Combination

These are together known as stability strategies/ basic strategies.

In **stability** strategy, the company continues to do what it is doing. Company neither introduces new products nor serves new market nor adopts new technologies. This strategy is good when environment is relatively stable. Company may only go for market penetration strategy.

Expansion strategy is adopted when environment demands increase in pace of activity. Company broadens its customer groups, customer functions and the technology. These may be broadened either singly or jointly. This kind of a strategy has a substantial impact on internal functioning of the organization.

Retrenchment: If the organization is going for this strategy, then it has to reduce its scope in terms of customer group, customer function or alternative technology. It involves partial or total withdrawal from three things. The objective varies from company to company.

Combination: When all the three strategies are taken together, this is known as combination strategy. This kind of strategy is possible for organizations with large number of portfolios.

Joint Ventures: In joint ventures, two or more companies form a temporary partnership. Companies opt for joint venture for synergistic advantages to share risk, to diversify and expand, to bring distinctive competences, to manage political and cultural difficulty, to take technological advantage and to explore unexplored market.

Strategic Alliance: When two or more companies unite to pursue a set agreed upon goals but remain independent it is known as strategic alliance. The firms share the benefits of the alliance and control the performance of assigned tasks. The pooling of resources, investment and risks occur for mutual gain.

Mergers: It is an external approach to expansion involving two or more than two organizations. Companies go for merger to become larger, to gain competitive advantage, to overcome weaknesses and sometimes to get tax benefits. Merger takes place with mutual consent and common goals.

Acquisition: For the organization which acquires another, it is acquisition and for organization which is acquired, it is merger.

Takeovers: In takeovers, there is a strong motive to acquire others for quick growth and diversification.

Divestment: In divestment, the company which is divesting has no ownership and control in that business and is engaged in complete selling of a unit. It is referred to the disposing off a part of the business.

Turnaround Strategy: When the company is sick and continuously making losses, it goes for turnaround strategy. It is the efforts in reversing a negative trend and it is the efforts to keep an organization alive.

All these alternatives are available to an organization and according to its objectives. However, on the basis of the values that the organization stands for they choose among these strategies. All the strategies, and other strategies that the organization may employ are discussed and evaluated for their relevance and limitations later in the book.

Value is that which one acts to gain and/or keep—*virtue* is the act by which one gains and/or keeps it. The three cardinal values of the Objectivist ethics—the three values which, together, are the means to and the realization of one's ultimate value, one's own life—are: Reason, Purpose, Self-Esteem, with their three corresponding virtues: Rationality, Productiveness, Pride.

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Value	**Virtue**
Reason	Rationality
Purpose	Productiveness
Self-Esteem	Pride.

For growth organization can employ multiple strategies. Some of these strategies are discussed in this chapter with respect to organizational values. Before implementing, these strategies need to be evaluated from multiple perspectives and the environment in which the firm operates, for their relevance and limitations.

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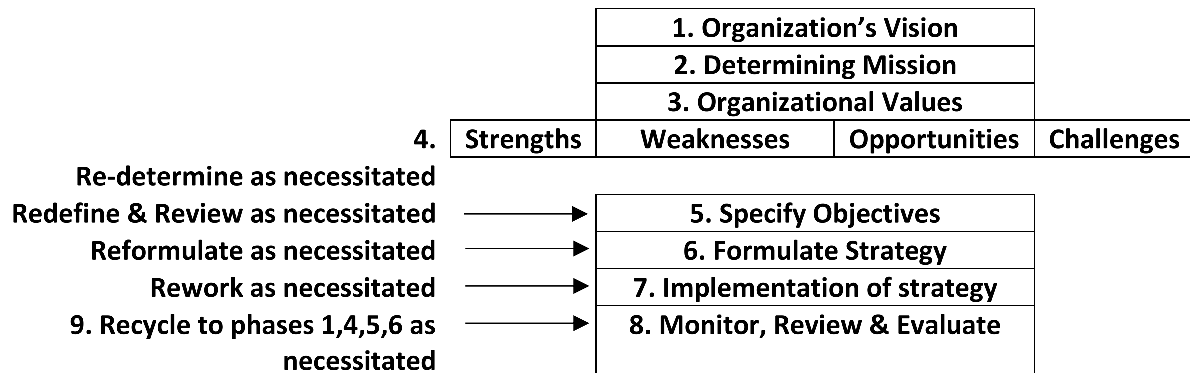
Chapter VI

Specifying Objectives

Once the organization finalizes its vision, mission, values and undertakes the SWOC analysis, the next step is to specify the objectives.



Objectives are the important ends towards which organizational and individual activities are directed. Writers and practitioners find it difficult to distinguish between the terms 'goals' and 'objectives'. Some of the definitions of strategy include goals and objectives as integral part of strategy. According to Chandler (1962), "Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals…"[i]

Anthony (1965)[ii] defined strategic planning as "the process of deciding on objectives of the organization, on changes in these objectives, on the resources used to attain these objectives, and on the policies used to govern the acquisition, use, and disposition of these resources".

Many textbooks use the terms objectives and goals interchangeably. Objectives and goals offer the basis for all managerial activity; they are the ends or aims towards which all activities are directed. Brown and Moberg[iii] (1980) listed several functions objectives and goals provide.

- Goals aid in legitimizing an organization and creating a place for it in the environment.
- Goals help managers identify inter-organizational relationships.
- Goals have public relations value; they might help in attracting support from various groups in the environment, and also in attracting the right people to join the organization.
- Organizational goals can also help in image building with suppliers, customers, public policy makers and the government.
- Goals can help in coordinating the multiplicity of tasks in organizations; conflicts can be more easily resolved if relevant stated goals are available.
- Goals provide the fundamental standards for measuring performance.
- Goals act as motivators. They provide a challenge to many organizational members. They generate commitment.

Objectives are open ended elements signifying a future state or an outcome and are stated in general terms. Once the objectives are indicated in specific terms, they become goals to be accomplished. In strategic management, at times, a different viewpoint is taken. Goals indicate a broad category of financial and non-financial issues that an organization sets for itself. Objectives are the culminations that testify specifically how the goals shall be achieved. It is to be observed that objectives are the manifestation of goals whether specifically stated or not.

Though the terms "goals" and "objectives" are used synonymously, most strategy thinkers differentiate between objectives and goals on following points…

- The goals are broad while objectives are specific.
- The goals are set for a relatively longer period of time.
- Goals are more influenced by external environment.
- Goals are not quantified while objectives are quantified.

King and Cleland[iv] have differentiated objectives from goals. According to them, objectives should be broad and timeless statements, though they may be stated in quantitative or qualitative terms. On the other hand, goals are specific, time-based points of measurement that the organization intends to meet in the pursuit of its broad objectives. Usually, goals are stated as specifically and as quantitatively as possible, the emphasis being on measurement of progress towards the achievement of objectives.

Broadly, it is more appropriate to use one term rather than both. The difference between the two is simply a matter of degree and it may vary widely.

On the lines of the levels of strategy, organizational goals[v] may be classified into three types…

The official goals: These are the general aims of the organization as described in a memorandum of association, charter or annual report. Goals have a public relations value, and the official goals are the ones which serve this function. The official goals or the stated goals also perform the function of legitimising the organization in its environment.

The operative goals: These indicate what the organisation is really attempting to do. They may be inferred from the actual operating policies of the organization. They help organizational managers to focus attention, reduce uncertainty and choose among organizational design alternatives.

The operational goals are used by supervisory personnel or managers in organizations to influence the behaviour of subordinates and to measure their performance.

Objectives and the organizational hierarchy

Objectives state the end results, and overall objectives need to be supported by sub-objectives. Objectives thus form a hierarchy as well as a network. The top management of the organization which articulates the vision then determines the mission of the organization, which sets the objectives for the organization, and the next level of hierarchy encompasses more specific objectives such as those in the key result areas.

Peter Drucker[vi] has suggested eight important areas of business objectives…

1. Marketing objectives are generally expressed in terms increase in market share to 20 percent within five years or to increase total sales by 10 percent annually. They are related to a functional area.
2. Innovation objective may be expressed in terms of product development, product diversification etc.
3. Human resource objective may be defined in terms of absenteeism, turnover, number of grievances, strikes and lockouts etc. An example may be "to reduce absenteeism to less than 10 percent by the end of six months".
4. Financial objective concerns to cash flow, debt equity ratio, working capital, new issues, stock exchange operations, collection periods, debt instruments etc. For instance, a company may state to decrease the collection period to 30 days by the end of this year.

5. Physical Resources
6. Productivity objective may be stated in terms of ratio of input to output. This objective may also be stated in terms of cost per unit of production.
7. Social Objective may be expressed in terms of social orientation. It may be tree plantation or provision of drinking water or development of parks or setting up of community centres.
8. Profit objectives is one the most principal objective for any organization. An organization has to set various objectives in key result areas such as market share, new product development, quality of service etc.

The board of directors and top-level managers are very much entailed in establishing the purpose, the mission and the overall objectives of the firm, as well as the more explicit inclusive objectives in the key result areas. The next level managers, such as the Vice President or Marketing Manager or the production manager, are engaged in the setting of key-result-area objectives, divisional objectives, and departmental objectives etc. The prime involvement of lower-level managers is in setting objectives of departments and units as well as of their subordinates. Although individual objectives, comprising of performance and development goals, are established at the bottom of the hierarchy, managers at higher levels also should set objectives for their own performance and development.

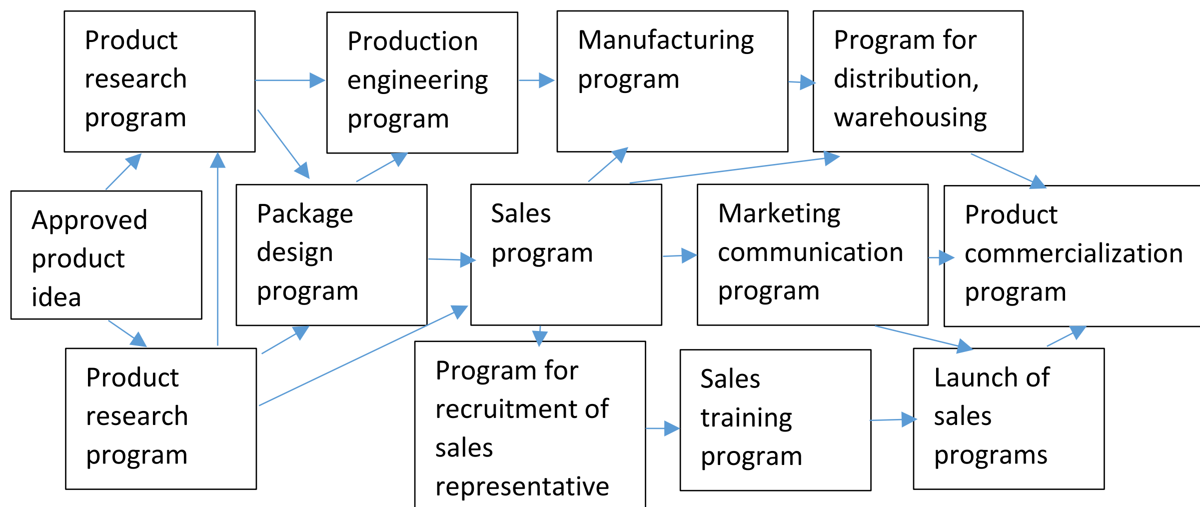
There are two approaches in setting objectives, top-down or the bottom-up approach. In the top-down approach upper-level managers establish the objectives for subordinates, while in the bottom up approach subordinates begin the process of setting objectives for their positions and give them to their superior. Either approach along is deficient. Both are crucial but the prominence should depend on the condition, including factors such as the size of the organization, the organizational culture, the favourite leadership style of the executive and the exigency of the plan.

Following table shows the organizational hierarchy and the corresponding objectives[vii].

Organizational Hierarchy	Corresponding objectives
Board of Directors	Socio-economic purpose Mission
Top-level managers	Mission Overall objectives of the organization (Long rage, Strategic)
Middle-level Managers	More specific overall objectives (e.g. KRA) Divisional objectives
Lower-level Managers	Department and unit objectives Individual objectives (Performance and Personal development objectives)

Goals and plans are seldom linear; that is, when one objective has been accomplished, it is not neatly followed by another, and so on. Goals and programs form an interlocking network. Managers must make sure that the components of the network ‘fit’ one another. Fitting is a matter not only of having the various programs carried out but also of timing their completion, since undertaking one program often depends on first completing another.

Following is a network of programs constituting a typical new-product program[viii].



It is effortless for one department of a company to establish goals that may seem entirely proper for it, only to discover itself functioning at cross-purposes with another department. The manufacturing department may realize that its goals are best attended by long production runs, but this might inhibit with the marketing department's aspiration to have all products in the line readily obtainable or with the finance department's objective of upholding investment in inventory at a certain low level.

Management by objectives

Management by objectives (MBO), despite some calling it an appraisal tool, a motivational technique, a planning or a control device, is practiced around the world. By definition MBO is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed towards the effective and efficient achievement of organizational and individual objectives.

Management by objectives has gone through many modifications; it has been used in performance appraisal, as a mechanism for motivating individuals, and in strategic planning. But there are quiet additional managerial subsystems that can be incorporated into the MBO process. They comprise of design of organizational structure, portfolio management, management development, career development, compensation programs, and budgeting. These diverse managerial activities need to be assimilated into a system. For instance, George Odiorne, considered it to be a system of managerial leadership. Others discuss the systematic relationships of MBO and many other key managerial activities in different environments[ix].

Most vital managerial activities can and should be incorporated in the MBO process. The degree of incorporation, however, differs from individual activities. It was found, that the highest degree of integration of MBO with managerial functions was in controlling, planning, and directing. But several key managerial activities in staffing and organizing also were well integrated into the MBO process. These findings suggest that MBO, to be effective, has to be viewed as a comprehensive system. In short it must be considered as a way of managing, and not an addition to the managerial job[x].

The objectives have to determined based on the SWOC analysis. To determine the objectives organization should look forward to overcoming the weaknesses and challenges while leveraging the

strengths and opportunities. Company must also identify the areas of emphasis while determining the objectives.

The eight business objectives listed by Peter Drucker, Marketing, Innovation, Human Organization, Financial Resources, Physical Resources, Productivity, Social Responsibility and Profit Requirements. To achieve objectives among these verticals, organization may employ various strategies. Achievement of these objectives in turn gives the organization the growth. Depending on the mission of the organization and its SWOC analysis organization may employ relevant of the strategies.

In their book Great by Choice, Jim Collins and Morten T. Hansen[xi] (2011) note "We placed the greatest weight on evidence from the actual time of the events. The core of our analysis always rested on comparing the 10X cases to the comparisons across time and asking, "What was different?". This method of inquiry proved particularly powerful for not only developing insights but also shattering deeply entrenched myths. In fact, many of the findings ran absolutely counter to our intuition and every major finding surprised at least one of us. As a preview of what's to come, following are sampling myth undermined by the research.

Entrenched myth: Successful leaders in a turbulent world are bold, risk seeking visionaries.

Contrary finding: The best leaders we studied did not have a visionary ability to predict the future. They observed what worked, figured out why it worked, and built upon proven foundations. They were not more risk taking, more bold, more visionary, and more creative than the comparisons. They were more disciplined, more empirical and more paranoid.

Entrenched myth: Innovation distinguishes 10X companies in a fast-moving uncertain and chaotic world.

Contrary finding: To our surprise, no. Yes, the 10X cases innovated, a lot. But the evidence does not support the premise that 10X companies will necessarily be more innovative than their less successful comparisons; and in some surprise cases, the 10X cases were less innovative. Innovation by itself turns out not to be the trump card we expected, more important is the ability to scale innovation, to blend creativity with discipline.

Entrenched myth: A threat-filled world favours the speedy; you're either the quick or the dead.

Contrary finding: The idea that leading in a "fast world" always requires "fast decisions" and "fast actions" – and that we should embrace an overall ethos of "Fast! Fast! Fast!" – is a good way to get killed. 10X leaders figure out when to go fast, and when not to.

Entrenched myth: Radical change on the outside requires radical change on the inside

Contrary finding: The 10X cases changed less in reaction to their changing world than the comparison cases. Just because your environment is rocked by dramatic change does not mean that you should inflict radical change upon yourself.

Entrenched myth: Great enterprises with 10X success have a lot more good luck.

Contrary finding: The 10X companies did not generally have more luck than the comparisons. Both sets had luck – lots of luck, both good and bad – in comparable amounts. The critical question is not whether you'll have luck, but what you do with the luck that you get.

Companies for the growth need to achieve objectives with respect to marketing, innovation, human resources, financial resources, physical resources, productivity, social responsibility and profit

requirements. To achieve these objectives organization must keep its fundamentals right with respect to vision, mission, values, SWOC analysis, specifying objectives, implementation, and monitoring. Company must monitor for its output, goods of services, its quality, quantity and quickness in being responsive. These three Qs of organization warrant strategies to improve quality, quantity and quickness along with the resources and relationships.

We start with the first element STRATEGY.

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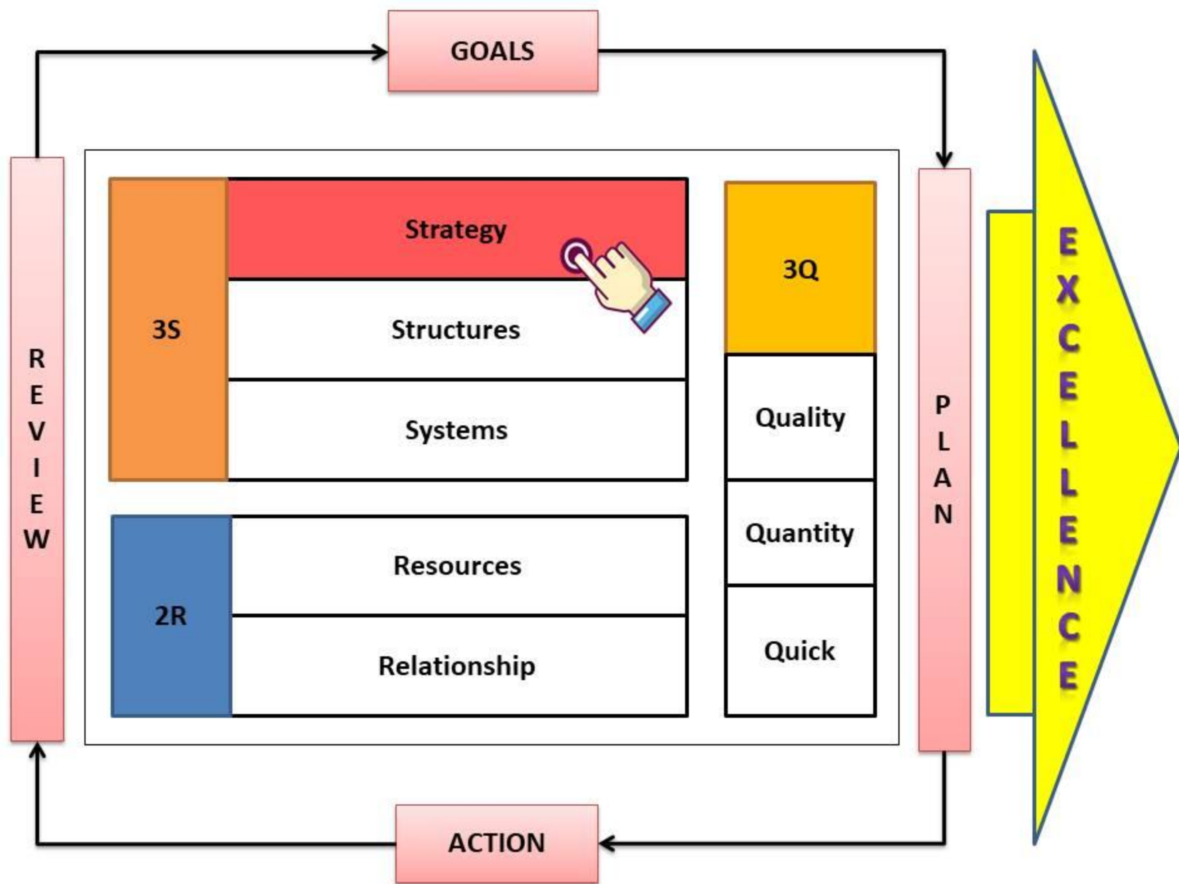

GOALS
REVIEW
3S
Strategy
Structures
Systems
2R
Resources
Relationship
3Q
Quality
Quantity
Quick
PLAN
ACTION
EXCELLENCE

Chapter VII

Organizational Strategies and the 5 Elements

A company with clearly stated values, well-articulated vision and precisely drafted mission finds decision making easier.

As pointed out in earlier chapter this book emphasizes on 3Qs: Quality (inputs, process, output), Quantity (efficiency, variable cost and fixed cost), Quick (Time targets, eliminate unnecessary activities) for which there are 3 S, Strategy, Structure, System; and 2 Rs are basic elements for success. In this chapter we look at these basic elements in details.

Basic elements of 3Qs are 3S + 2R

3S being Strategy, Structure, System. Strategy, structure and system has impact on the 2Rs as well. A strategy has positive impact on resource utilization as well relationship. Similarly, structure and systems too have impact on the 2Rs.

2Rs being Resources 4M (Money, Material, Machine, Manpower), and Relationship. Resources in terms of manpower are further classified in the chapter on resources.

Organizational growth, however, means different things to different organizations. There are many factors a company may use to measure its growth. Since the decisive goal of most companies is profitability, most companies will measure their growth in terms of net profit, revenue, and other financial documents. While some business owners may use another set of criteria for assessing their growth: sales, number of employees, physical expansion, success of a product line, or increased market share. Ultimately, success and growth will be gauged by how well a firm does, relative to the goals it has set for itself[i].

Globalization has made organizational growth more difficult than ever before. In order to understand the impact of globalization we must understand the term first. What do economists mean by "globalization"?[ii] First and foremost: integration through international trade of markets in goods and services, as reflected in a variety of possible measures. These include direct measures of barriers, e.g., tariffs and transport costs; quantity-related measures of the result, i.e., trade volumes; and price-related measures of the result, i.e., the law of one price and other evidence of arbitrage. Next, financial integration through international trade in assets, again as reflected in a variety of possible criteria: direct measures of barriers, e.g., capital controls and transactions costs; quantity-related measures of the result, i.e., gross and net capital flows, portfolio shares, or consumption sharing; and price-related measures of the result, i.e., interest rate parity conditions and other evidence of arbitrage. Further down the list are foreign direct investments, increased trade in intermediate products (especially within multinational corporations), international outsourcing of services, and international movement of persons. Finally, some truly comprehensive definitions of globalization would include the international spread of ideas, from consumer tastes to intellectual ideas (technological patents, management principles, democracy, environmental activism, the Washington Consensus, accounting standards, inflation targeting among Central Banks, etc.)

Organizations need to concentrate on global economies of scale. Organizations need to address the issues of quantity with respect to efficiency, variable cost and fixed costs. The global economies of scale have also ensured better quality across price points. Earlier better quality required higher input cost of raw material, better processes demanded higher cost. With global economies of scale, organizations can offer quality products at affordable prices across target markets.

Many authors have developed multiple frameworks for organizational growth.

One of the most important contributors to the growth of an organization is a consumer. As pointed out by Daniel Spulber, "Consumers will establish firms if and only if doing so improves economic efficiency."[iii] The theory of the firm necessarily derives the existence of firms from fundamental assumptions about the characteristics of consumers who have exogenously given preferences and

endowments. Therefore, consumers are the basic building blocks of the theory of the firm. Consumers do not buy the best and reject the worst. They buy where they see value. Value is always in the eyes of beholder.

Since consumers are the basic building blocks of the firm, firms while ensuring quality of the product must look at the value quality will offer. Value is benefit to cost ratio. Benefit is the advantage of profit that a consumer gets from the product. While buying a product consumer may buy a functional benefit or an emotional benefit. Cost is the money that consumer has to pay to buy/acquire/use a particular product. To determine value consumers, look at both the functional benefit they derive from the product as well as the emotional benefit they get. Similarly, while analysing value, consumers evaluate cost not only the acquisition cost but time, energy as well as psychological cost consumer has to pay.

When the organization makes the value proposition, they must effectively reduce cost and increase benefit. Quality is defined as the standard of something as measured against other things of a similar kind; the degree of excellence of something.

In chapter Paradigm Shift we have discussed marketing orientation as noted by Philip Kotler[iv]. The Five Concepts Described are philosophies and their beliefs.

1. The Production Concept
2. The Product Concept
3. The Selling Concept
4. The Marketing Concept
5. The Societal Marketing Concept

The existence of your business or profession depends on quality of product and services you are offering to your customer and client. Quality depends upon quality of input material, process and quality check for final output. [Hemant Lodha Blog, Quality Is Quintessential]

5 Tips for making Quality as way of Life:

1.Develop the culture of quality consciousness in personal as well as professional life.
2.Quality of output depends on quality of input and process.
3.In short term, quality may cost you but in long term, it is an investment.
4.Continuous monitoring is needed to achieve the quality consistently.
5.Use less quantity but use good quality.

The Growth Strategies

Though organizational growth means different things to different organizations and there are many parameters a company may use to measure its growth; the ultimate goal of most companies are sales, increased market shares and profitability.

Organizations strategies are to achieve predetermined objectives while interacting with the external environment. There are multiple approaches to achieve these objectives. Organizations take into account their internal environment, the strengths and weakness while addressing the external environment which brings in opportunities as well as challenges. Many organizations are multi-business organization, diversified organizations.

When the organization articulates its values, vision and mission; it develops strategies to answer questions like…

What do we stand for?

What do we aspire to achieve?

What do we do?

Who do we do it for?

Why do we exist?

Where are we going?

How will we succeed?

Since some organizations have multiple business. In a diversified enterprise, strategies are initiated at four distinct organizational levels. There's a strategy for the company and all of its businesses as a whole, corporate strategy. There's a strategy for each separate business the company has diversified into, business strategy. Then there is a strategy for each specific functional unit within a business, functional strategy. Each business usually has a production strategy, a marketing strategy, a finance strategy, and so on. And, finally there are still narrower strategies for basic operating units – plants, sales districts and regions and departments within functional areas, operating strategy. In single-business enterprises, there are only three levels of strategy making business strategy, functional strategy, and operating strategy[v]. The strategies can be developed at three levels.

Strategy can be formulated at three levels, namely,

- The Corporate Level,
- The Business Level, and
- The Functional Level.

The Corporate Level Strategies:

At the corporate level, strategy is formulated for the organization as a whole. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes. Corporate level strategy defines the business areas in which the firm will operate. If the organization operates in multiple businesses then corporate level strategy deals with aligning the resource deployments across a diverse set of business areas, related or unrelated. Strategy formulation at corporate level involves integrating and managing the diverse businesses and realizing synergy at the corporate level. The corporate strategies are formulated by top management team. The corporate strategy reflects the path toward attaining the vision of the organization.

Corporate Level Strategy:

- Defines the business areas in which your firm will operate.
- Involves integrating and managing the diverse businesses and realizing synergy at the corporate level.
- Top management team is responsible.

The Business Level Strategies

When the company operates in multiple business, business level strategies are developed for specific strategic business units and relate to a distinct product-market area. It involves defining the competitive position of a strategic business unit. The business level strategy development is based upon the generic strategies of overall cost leadership, differentiation, and focus. A conglomerate, may choose overall cost leadership as a strategy to be pursued in its steel business, differentiation in its tea business, and focus in its automobile business. The business level strategies are decided upon by the heads of strategic business units and their teams in light of the specific nature of the industry in which they operate.

Porter's generic strategies offer guidelines how the business level strategies will be developed to compete in the given market. These include overall cost leadership, differentiation and focus.

Business Level Strategy:

- Involves defining the competitive position of a strategic business unit.
- Decided upon by the heads of strategic business units and their teams.

The Functional Level

Functional level strategies relate to the different functional areas which a strategic business unit has, such as production and operations, finance, marketing, and human resources. Functional level strategies also referred to as operational strategies. These strategies are developed by the functional heads along with their teams and are aligned with the business level strategies. The strategies at the functional level involve setting up short-term functional objectives, the attainment of which will lead to the realization of the business level strategy.

Functional Level Strategy:

- Formulated by the functional heads along with their teams.
- Involve setting up short-term functional objectives.

Every organization, essentially, develops strategies for growth. Corporate strategy gives an outline for the growth of the firm. The corporate strategy offers an overall direction for the organization to follow. It also sets the major mile stones, the extent, pace and timing of the firm's growth. Corporate strategy is mainly concerned with the internal environment of the firm with respect to its choice of businesses, products and markets. The competitive and functional strategies of the firm are developed to match with the corporate strategy to facilitate it to reach its desired objectives.

A corporate-level strategy is an action taken to gain a competitive advantage through the selection and management of a mix of businesses competing in several industries or product markets. Corporate strategies are normally expected to help the firm earn above-average returns and create value for the shareholders (Markides, 1997).

Corporate-level strategy is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization[vi].

A corporate level strategy thus has three major components:

a) Growth or directional strategy, outlines the growth objectives ranging from drastic retrenchment through stability to varying degrees of growth and methods and approaches to accomplish these objectives.

b) Corporations are responsible for creating value through their businesses. They do so by using a portfolio strategy to manage their portfolio of businesses, ensure that the businesses are successful over the long-term, develop business units, and

c) Ensure that each business is compatible with others in the portfolio.

Portfolio strategy plans the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification. Portfolio strategy is an important component of corporate strategy in a multi-business corporation.

Basic concept corporate strategy concerns how a diversified company intends to establish business positions in different industries and the actions and approaches employed to improve the performance of the group of businesses in which the company has diversified [vii]. Corporate strategy is the overall managerial game plan for a diversified company, it extends companywide – an

umbrella over all the diversified company's businesses. Thus, developing corporate strategy for a diversified company involves four kinds of initiatives:

Firstly, making moves to establish positions in different businesses and achieve diversification. How many and what kinds of businesses the company should be in – specially, what industries to enter and whether to enter the industries by starting a new business or by acquiring another company. It also evaluates whether to go for related diversification or unrelated diversification.

Harsh Mariwala, chairman and managing director Marico mentioned, "At one level, the organisation has made huge movement from the so-called branded commodities to more value-added brands. That has meant a huge change in the way the organisation has functioned. And that transition is still continuing as we have now made inroads into male grooming[viii]…". The inroads into male grooming came with the acquisition of Paras Pharmaceuticals' personal care business from the UK consumer goods giant Reckitt Benckiser.

From edible and hair oil company, Marico entered new exciting categories with high growth rates. The acquisition gave Marico access to skin creams (Borosoft and Recova), lip balms (Dr Lips), hair gels (Set Wet), hair serums (Livon) and deodorants (Zatak). Set Wet, Livon and Zatak were growing at 20 percent per annum. This allowed company to participate in high growth categories.

Secondly, initiating actions to boost the combined performance of the businesses the firm has diversified. Corporate office, strategists, help their business subsidiaries to be more successful by financing additional capacity and efficiency improvements, by supplying missing skills and managerial knowhow, by acquiring another company in the same industry and merging the two operations into a stronger business, or by acquiring new business that strongly complement existing businesses. Management's overall strategy for improving companywide performance usually involves pursuing rapid-growth strategies in the most promising businesses, keeping the other core businesses healthy, initiating turnaround efforts in weak-performing businesses with potential, and divesting businesses that are no longer attractive or that don't fit into the organization's long-range plans.

Marico's dominant markets for a long time were edible oil (Saffola), and hair oil (Parachute) and a smaller extent, the lice treatment category (Mediker). But there was only that much a company can grow in these sectors, especially if it wants to establish itself as a major player in the consumer products/FMCG category. To get to the right size, the management realised that it had to enter into new categories that are on a growth path. Marico's strategy was to focus on emerging markets, in developing categories with high growth rates and low penetration[ix]. According to industry estimates then, the male grooming category in India including pre and post shave products, toiletries, skin and hair care products was worth about Rs. 3,000 crore.

Thirdly, pursuing ways to capture valuable cross-business strategic fits and turn them into competitive advantage. When a company diversifies into businesses with related technologies, similar operating characteristics, common distribution channels or customers or some other synergistic factor, it gains competitive advantage potential not open to a company that diversifies into totally unrelated businesses.

Marico's product diversification strategy involved men and women. For growth it focused on organic and inorganic path. The company realised that it has to focus on big bets that will significantly drive not only growth, but also add back to the equity. In that context, the brand structures of Saffola and Parachute were in the right direction. Saffola developed into a 'healthy lifestyle' brand with the launch of Saffola Oats, and Marico moved into breakfast, as it is a meal that people are more inclined to eat healthy. Similarly, with Parachute, company stands for care and nourishment, it moved into body care lotion with the launch of 'Parachute Advansed Lotion', skin care.

Fourthly, instituting investment primacies and routing corporate resources into the most attractive business units. A diversified company's different businesses are usually not just as attractive from the standpoint of investing additional funds. Thus, corporate strategy making involves channelling resources into areas where earnings potentials are higher and away from areas where they are lower.

Tata Chemicals sold its urea business to Yara Fertilisers[x]. The divestment of the Urea Business by Tata Chemicals unlocked value for the company, strengthened its balance sheet and helped to pursue growth potentials and opportunities in line with its strategic directions.

This process of divestment by Tata Chemicals is in line with the strategic direction of the company to continue to strengthen the fertiliser businesses by partnerships and/or transfer of ownership to world class companies. The Urea Business will now have the benefit of International network of Yara and its global expertise[xi].

The top management views its product lines and business unit as a portfolio of investments from which it expects a profitable return. A key part of corporate strategy is making decisions on how many, what types, and which specific lines of business the company should be in. This may involve decisions to increase or decrease the breadth of diversification by closing out some lines of business, adding others, and changing emphasis among the portfolio of businesses. A portfolio strategy is concerned not only about choice of business portfolio, but also about portfolio of geographical markets for acquisition of inputs, locating various value chain activities and selling of outputs. In short, a portfolio strategy facilitates efficient allocation of corporate resources, links the businesses and geographically dispersed activities and builds synergy leading to corporate or parenting advantage.

Corporate office, strategists, try to capture valuable cross-business strategic fits in a portfolio of business and turn them into competitive advantages, especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and/or customers. In other words, it decides how will organization allocate resources and manage capabilities and activities across the portfolio — where does organization put special emphasis, and how much does organization integrate its various lines of business. Corporate strategists, view the corporation in terms of resources and capabilities that can be used to build business units' value as well as generate synergies across business units.

Corporate strategists develop corporate strategy by focusing on the core competencies of the parent corporation and on the value creation from the relationship between the parent and its businesses. To achieve corporate advantage a corporation needs to do at least the following…

Better choice of business to compete.

Superior acquisition and development of corporate resources.

Effective deployment, monitoring and controlling of corporate resources.

Sharing and transferring of resources from one business to other leading to synergy.

To achieve a targeted top line, KEC International ltd developed a strategic plan. Company forayed into water, wind and solar power. Targeting to position itself as a complete EPC (Engineering, Procurement & Construction) infrastructure company. With focus on power transmission business[xii]. KEC geared up to sustain its growth momentum with a diversified portfolio. Even as company continued its leadership in the power transmission space it was looking at EPC and supply opportunities in other infrastructure businesses. This helped the company to grow at a faster rate, and also added tremendous value proposition to overall business model. First, company evolved as a major EPC company in the power transmission arena. It emerged as a global leader in this segment.

Then started spreading its footprint aggressively into overseas destinations, KEC powered infrastructure developments in 45 countries across South Asia, Middle East, Africa, Central Asia and the America. With proven technical capability and superior project management expertise, the company is executing complex projects in different international locations.

KEC's diversification into other infrastructure verticals is a strategic move on is part to scale up its overall operation and de-risk its business model from cyclical downturns. KEC's geographical and business diversifications are well-backed up by a robust execution capability and strong management bandwidth. The company invested about Rs. 1,000 crores in building up capabilities in existing as well as newer areas. As a part of its geographical diversification and business expansion, KEC acquire Texas-based SAE Towers, which marked KEC's entry into large markets of North and South America. SAE had manufacturing capacity of 100,000 tonnes, spread over two locations – Brazil and Mexico.

KEC's efforts to consolidate its existing businesses and diversify into newer areas provided a distinct edge in the market. Its internal foray had shaped up quite well too, with the acquisition of SAE Towers. Over the years company has built up credibility for itself through commitment and delivering constant quality. Most of its projects, despite being complex in nature, have been delivered on time.

Growth is essential for an organization. Organizations go through an inevitable progression from growth through maturity, revival, and eventually decline. The broad corporate strategy alternatives, sometimes referred to as grand strategies, are:

Stability/Consolidation, Expansion/Growth, Divestment/Retrenchment and Combination strategies. During the organizational life cycle, managements choose between growth, stability, or retrenchment strategies to overcome deteriorating trends in performance.

Just as every product or business unit must follow a business strategy to improve its competitive position, every corporation must decide its orientation towards growth by asking the following three questions:

1. Should we expand, cut back, or continue our operations unchanged?
2. Should we concentrate our activities within our current industry or should we diversify into other industries?
3. If we want to grow and expand nationally and/or globally, should we do so through internal development or through external acquisitions, mergers, or strategic alliances?

At the core of corporate strategy, must be a clear logic of how the corporate objectives will be achieved. Most of the strategic choices of successful corporations have a central economic logic that serves as the fulcrum for profit creation. Some of the major economic reasons for choosing a particular type corporate strategy are:

a) Exploiting operational economies and financial economies of scope.

b) Uncertainty avoidance and efficiency.

c) Possession of management skills that help create corporate advantage.

d) Overcoming the inefficiency in factor markets and

e) Long term profit potential of a business.

The non-economic reasons for the choice of corporate strategy elements include

a) dominant view of the top management,

b) employee incentives to diversify (maximizing management compensation),

c) desire for more power and management control,

d) ethical considerations and

e) corporate social responsibility.

There are four types of generic corporate strategies. They are:

Stability strategies: make no change to the company's current activities

Growth strategies: expand the company's activities

Retrenchment strategies: reduce the company's level of activities

Combination strategies: a combination of above strategies

Each one of the above strategies has a specific objective. For instance, a concentration strategy seeks to increase the growth of a single product line while a diversification strategy seeks to alter a firm's strategic track by adding new product lines.

Once a strategic course has been identified, it then becomes necessary for management to scrutinize business and functional level strategies of the firm to make sure that all units are stirring towards the attainment of the organization-wide corporate strategy. A stability strategy is employed by a firm to achieve steady, but slow improvements in growth while a retrenchment strategy (which includes harvesting, turnaround, divestiture, or liquidation strategies) is utilized to inverse poor-organizational performance.

Stability Strategy

Stability strategy is a strategy in which the organization retains its present strategy at the corporate level and continues focusing on its present products and markets. The firm stays with its current business and product markets; maintains the existing level of effort; and is satisfied with incremental growth. It does not seek to invest in new factories and capital assets, gain market share, or invade new geographical territories. Organizations choose this strategy when the industry in which it operates or the state of the economy is in turmoil or when the industry faces slow or no growth prospects. They also choose this strategy when they go through a period of rapid expansion and need to consolidate their operations before going for another bout of expansion. Organization may prefer this strategy for a group of products.

For instance, as discussed in case of Marico, for brands like Parachute (hair oil) and Saffola (edible oil), company may prefer stability strategy as further growth on these products was difficult. Moreover, incremental marketing spend on these brands probably would have generated less returns compared to other product categories which were in higher growth trajectory.

As we shall discuss later in this book, these brands / product categories may be considered as cash cow where market growth is low but the relative market share in the product category with respect to competition is high. The objective of the organization then is to defend the high market share.

Even to defend the market share in a slow growth market, organization must pay attention to quality, quantity and quickness. Organization also needs to evaluate current strategy for defending market share as well as the organizational structure within which the product portfolio / brand fits in and employed resources for profitability. If the profits are difficult to come by, organization should have a decency to withdraw the product even if it has high market share but little scope of contributing to profits in near future.

	Strategy: Stability		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick	✓		
Resources		✓	
Relationships	✓		

Even while employing the stability strategy organizations quality with respect to product as well as services should never be compromised. Organization may select a few markets and thus cut down on the quantity part, but the markets that it serves should be served with utmost care. Organization also must be quick to identify the shift in favour or the product or against and respond to the changing consumer preference. The resource allocation for the product category may be moderate, but the relationships should continue to be of highest order for future growth of the category as well as new focus area.

A firm following stability strategy maintains its current business and product portfolios; maintains the existing level of effort; and is satisfied with incremental growth. It focuses on fine-tuning its business operations and improving functional efficiencies through better deployment of resources. In other words, a firm is said to follow stability/ consolidation strategy if:

- It chooses to serve the same markets with the same products;
- It endures to follow the same goals with a strategic thrust on incremental improvement of functional performances; and
- It focusses its resources in a narrow product-market scope for developing a meaningful competitive advantage.

Embracing a stability strategy does not mean that a firm lacks interest for business growth. It only implies that their growth targets are conservative and that they wish to maintain a status quo. Since products, markets and functions continue unchanged, stability strategy is basically a defensive strategy. A stability strategy is ideal in stable business environments where an organization can devote its efforts to improving its efficiency while not being threatened with external change. In some cases, organizations are inhibited by regulations or the expectations of key stakeholders and hence they have no option except to follow stability strategy.

Usually large firms with a significant portfolio of businesses do not usually depend on the stability strategy as a principal route, though they may employ it under certain special circumstances. They normally use it in combination with the other generic strategies, adopting stability for some businesses while pursuing expansion for the others.

However, small firms find this a very useful approach since they can reduce their risk and defend their positions by adopting this strategy. Niche players also prefer this strategy for the same reasons.

Employing Stability Strategy

Stability strategy does require shifting the way the business is run, however, the range of products offered and the markets served, remain unchanged or narrowly focused. Stability strategy is alleged as a non-growth strategy. However, stability strategy does provide growth opportunities, though to a narrow extent, in the current product-market zone to realize contemporary business goals. Executing stability strategy does not indicate stagnation since the primary push is on continuing the current level of performance with incremental growth in ensuing phases. Strategists of an organization might choose stability when:

- The economy or the industry is in chaos or the environment is volatile. Strategists stay conservative because of the prevailing uncertain conditions, till the environment is more positive.
- Similarly, when the environment is highly predictable and there is no apparent major threat to organization of industry.
- The organization that has gone through a period of swift growth and then objective is to consolidate the advantages before chasing additional growth.
- The firm is content with modest or incremental growth ambitions.
- The firm is in a comfortable competitive position in a mature industry with no potential growth prospects.

Basis for Using Stability Strategy

Stability strategy is preferred over growth strategy for a number of reasons and conditions. As mentioned earlier, an organization that has gone through a period of swift growth and then objective is to consolidate the advantages before chasing additional growth. A hostile phase of growth and/or expansion may find itself inefficient and uncontrollable. Organization need to stabilize for a while.

India Cements went through a rapid expansion by acquiring other cement companies before stabilizing and consolidating its operations. Videocon and BPL had first diversified into new businesses and then started consolidating once faced with stiff competition.

If the organization is performing well, conservative management, contented with the market position and profitability, does not see a reason to change, and continue with stability strategy for following years. Since the products of the company are well accepted in the target market, company relishes the competitive advantage and does not see any abrupt threat. Organization thus fancies stability in current market with existing product, avoiding deviation from it. Management also avoids taking risk of attempting into unfamiliar businesses landscapes. As long as the expected results are achieved management does not want to take any risk. Management considers traditional business, products and markets instead of taking risk of product development, market development or even diversification. This exposes company to higher risk in future.

It was February 2011, and Nokia had a problem[xiii]. Once an undisputed leader in mobile technology, the company no longer could keep up with its competitors. For over a decade, Nokia had been the world's most successful handset manufacturer. But now it was losing ground. Fast. With Apple's introduction of the iPhone in 2007 and Google's unveiling of Android in 2008, the rules of the game had changed. These were hugely successful software platforms in what was once a hardware-centric industry, and Nokia was nowhere near that stage. Its legacy operating system, Symbian, was outdated and difficult to develop software for and its next-gen operating system, MeeGo, still wasn't ready for prime time.

Nokia did not react to the changing environment fast (quick).

Jo Harlow, Nokia's head of Symbian, agreed. "Our ability to change from being device-led to being software-led as the industry changed hasn't been fast enough," she said. "We could have been in a different position if we had been able to make the transition more quickly.[xiv]"

Many strategists pursue consolidation strategy involuntarily. As a matter of fact, they do not react to dynamic environmental changes and avoid radical changes in the current strategy unless warranted by unexpected conditions.

At times regulatory factors do not permit larger organizations to adopt aggressive expansion strategies, fearing monopoly. Particularly if an organization has dominant market share in a given

market, as it may lead to monopolistic and restrictive trade practices which have damaging impact on public interest.

Stability Strategy Approaches

A firm can employ multiple approaches while developing a stability/consolidation strategy. Management can employ the one that best suits to achieve organization's objective. Depending upon the situation that the organization is, it can employ one of the following strategies.

Holding Strategy: There are two situations where holding strategy is suitable:

1. After the rapid growth or having faced hostile environment, organization needs stability strategy to reflect on the learnings, rejuvenate and consolidate, before employing the next growth strategy.

or

2. If the environment is hostile and uncertain, company needs to employ holding strategy to get clearer picture of environment or let the environment become favourable.

Holding strategy aims at maintaining the current development rate and defend its current market share. If the market itself grows, organization too will grow with the market, but growth is not chased. Normally organization does not invest additionally in resources as well as managerial efforts. In a way, it indicates that the functional strategies will stay at the earlier levels. This approach is particularly useful when either the company does not have necessary resources to chase higher growth for a longer period of time and environmental changes disallow growth.

Stable Growth: This strategy is generally employed in stable economic environment. It can be a long-term strategy for mature markets. Generally employed by smaller organizations, where level of competition is also low. These companies cannot invest heavily in product or market development, it expands product line as well as its presence in the market at lower pace. In this strategy company develops market penetration and product development strategies. It develops products to cater to existing market but the pace of launch of new products is low. Company also develops markets for its existing product, though again the pace of development is low. The strategy is generally followed by regional players where entry costs are low.

Harvesting Strategy: To take the advantage of dominant market share and generate cash for future business expansion, company may employ harvesting strategy. Strategy got its name as is typically related with cost cutting and price increase to generate additional profits. Particularly suitable to an organization whose foremos9t objective is to generate cash. Company may generate cash even by sacrificing its market share. There are multiple approaches to achieve the objective of being more profitable for generating cash. A company may choose to selective price increase and reduce cost while keeping prices at the same level. A select product or a product category thus skim the market rather than increasing or defending market share. All products in a company product portfolio do not have same gross contribution.

Endgame Strategy or Profit: In this strategy, as in other strategic decisions, timing is most crucial. A profit strategy is one that exploits a condition in which old and obsolete product or technology is being replaced by a new one. While moving to the new technology, company partially continues to use existing technology. As the old technology does not need any investment, this strategy is not a growth strategy. The strategy is employed particularly for consumer durables which require spare parts for products based on old technologies over a few years. The old technology continues to cater to the spare part market over the transition years. So, till end of the game companies continue to stay in the market. However, all manufacturers over the years shelve the old assets and move upgrade to the new product or technology.

Growth Strategies

Firms select expansion strategy when the strategy maker's observations of resource availability and past financial performance are both high. The most employed growth strategies are diversification at the corporate level and concentration at the business level.

Reliance Industry, with its presence in Exploration & Production, Petroleum Refining & Marketing, Petrochemicals, Textiles, Retail, Retail Investor Relations, Jio is a vertically integrated company[xv]. Covering the complete textile value chain has been repositioning itself to be a diversified conglomerate by entering into a range of business such as power generation and distribution, insurance, telecommunication, and information and communication technology services. Diversification is defined as the entry of a firm into new lines of activity, through internal or external modes.

The principal motives a firm chase increased diversification are value creation through economies of scale and scope, or market supremacy. In some cases, firms choose diversification because of government policy, performance problems and uncertainty about future cash flow. In a way, diversification is a risk management instrument, in that its successful use decreases a firm's susceptibility to the concerns of competing in a single market or industry. Threat plays a very vital role in choosing a strategy and hence, uninterrupted evaluation of risk is linked with a firm's ability to achieve strategic advantage.

Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. As suggested by The Ansoff Matrix, developed by H. Igor Ansoff and first published in the Harvard Business Review in 1957, in an article titled "Strategies for Diversification." Companies can go for market penetration, product development, market development strategies apart from the diversification strategy.

Diversification is achieved through external modes through acquisitions and joint ventures. Concentration can be achieved through vertical or horizontal growth. Vertical growth takes place when a firm takes over a function hitherto provided by a supplier or a distributor, i.e. successive stages of production. Horizontal growth take place when the firm develops products into new geographic areas or increases the range of products and services in current markets.

Quality, Quantity and Quickness remain critical for all the growth strategies. Quick does not mean being first in the market but it refers to time targets and eliminating unnecessary activities while responding to customer needs.

	Strategy: Growth		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick		✓	
Resources	✓		
Relationships		✓	

As the organization looks forward to growth, it leverages quality, gains quantity, makes optimum use of its resources, it will take time to achieve its target and will take time develop relationship.

Retrenchment Strategy

Numerous firms experience declining financial performance as a consequence of market erosion and wrong decisions by management. Managers retort by choosing corporate strategies that redirect their endeavour to turnaround the company by refining the firm's competitive position or divest or wind up the business if a turnaround is not possible. Turnaround strategy is a form of retrenchment strategy, which focuses on operational improvement when the state of decline is not severe. A diversified firm may employ retrenchment strategy for the underperforming business units or business units which are not strategic fit to organizational objectives. Retrenchment is not considered as managements inability to run a business but more of a strategic decision to stay focused on core competencies of the firm for productively deploying its scarce resources.

Additionally, probable corporate level strategic reactions to waning include growth and stability.

Combination Strategy

The three basic strategies can be employed in combination; they can be employed in as a series of strategies, for instance growth followed by stability, or tracked simultaneously in different parts of the business unit. Combination Strategy is designed to mix growth, retrenchment, and stability strategies and apply them across a corporation's business units.

A diversified firm can identify underperforming business units as well as units performing well. Resources from the underperforming units then can be directed at units which have potential to perform in future. Thus, organizations identify their thrust areas and then accordingly direct resources and then pursue stability strategy for performing business units, retrenchment for underperforming units and growth for the units which are thrust areas for future.

Expansion Strategies

In a persistent and brutal competitive environment every organization seeks growth as its long-term goal to avoid extinction. Growth is crucial for the existence of the organization and offers ample opportunities to everyone in the organization to meet their professional and personal ambitions. All this is possible only when essential conditions of expansion have been met.

Organization to maintain its competitive position in fast growing national and international markets, formulates expansion strategies. Expansion strategies are essential for an organization to successfully compete, persist and prosper. To fulfil their long-term growth objectives expansion strategy is an important strategic option for organizations. Organizations pursue expansion strategy to achieve substantial growth contrasting to incremental growth predicted in stability strategy. Expansion strategy is embraced to speed up the rate of growth of sales, profits and market share quicker by entering new markets, acquiring new resources, developing new technologies and creating new managerial capabilities.

Expansion strategy offers a blueprint for an organization to achieve its long-term growth objectives. It permits it to retain its competitive advantage even in the advanced stages of product and market progression. Growth offers economies of scale and scope to an organization, which in turn reduces operating costs and increases earnings. Moreover, with these advantages the organization benefits by getting a greater control over the direct environment because of its size. This stimulus is crucial for persistence in mature markets where competing firms belligerently defend their market shares.

Ansoff's Product-Market Expansion Grid

	Existing Market	New Market
Existing Product	Market Penetration	Market Development
New Product	Product Development	Diversification

For growth strategies pioneering work was done by Igor Ansoff (1968). The product/market grid, has been very useful in determining growth prospects. This grid best elucidates several intensification choices available to an organization. The product/market grid has two dimensions, namely, products and markets. Combinations of these two dimensions result in four growth strategies. According to Ansoff's Grid, three distinct strategies are possible for achieving growth through the intensification route. These are:

Market Penetration: The organization pursues growth with existing products in their existing market segments, intending to increase its markets share.

Market Development: The organization pursues growth by targeting its existing products to new market segments, geographies.

Product Development: The organization develops new products to cater to its existing market segments.

Diversification: The organization grows by diversifying into new businesses by developing new products for new markets.

Market Penetration

An organization pursues market penetration strategy, when it believes that there are plenty of opportunities that can be exploited in its current market and with current products. Market penetration comprises of achieving growth through existing products in existing markets and an organization can achieve this by:

Encouraging the existing customers to buy its product more frequently and in larger quantities. Market penetration strategy generally emphasizes on shifting the infrequent users of the firm's products or services to frequent users and frequent users to heavy users. Typical sales promotion schemes used for this purpose are volume discounts, bonus cards, price promotion, heavy advertising, regular publicity, wider distribution and obviously through retention of customers by means of an effective customer relationship management.

Organizations try to attract its competitors' customers by encouraging brand switch. For this objective, organization must develop noteworthy competitive advantages. Attractive product design, high product quality, attractive prices, stronger advertising, and wider distribution can support the organization in gaining lead over its competitors. All these require heavy investment, which only firms with considerable resources, can afford. Organizations with less capabilities may search for niche segments. Many small organizations, for instance, survive by looking out for and developing lucrative niches in the market. They may also grow by developing highly specialized and unique skills to cater to a small segment of exclusive customers with special requirements.

Aiming for new customers in its current markets. Offering better customer service, Price concessions, increasing publicity and other techniques can be valuable in this strategy.

In a growing market, even maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits.

Market penetration has limits. As the organization employing market penetration strategy, operates in the same markets offering the same products, growth is achieved by increasing its market share with existing products. However, once the market reaches saturation another strategy must be pursued if the organization is to continue to grow. Strategy heavily depends on brand switch, unless there is an intrinsic growth in its current market. Since market penetration strategy leverages many of the firm's existing resources and capabilities, it is the least risky. Another advantage of this strategy is that it does not require additional investment for developing new products.

Impact of market penetration strategy on the five elements.

	Strategy: Market Penetration		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick		✓	
Resources	✓		
Relationships	✓		

By achieving higher market penetration organization gains on the quantity manufactured. Higher quantity sale also offers economies of scale to the organization, which can be channelized as per the objective. Retained earnings may give higher profitability. Price competitiveness, if passed on to customers and better quality, if invested in improving product further. To gain new customers organization needs to re-look at its promotional strategies because if the brands equity is diluted, organization may lose its existing customers to competitors. Market penetration allows company to use all its resources optimally and also allows to leverage its relationship with stake holders, make them stronger in the process.

Market Development Strategy

Market Development strategy attempts to achieve growth by launching existing products in new markets. Market development opportunities include the search of additional market segments or geographical regions. If the organization's core competencies are linked more to the specific product than to its experience with a specific market segment or when new markets offer better growth prospects compared to the existing ones, the development of new markets for the product may be a good strategy. As the organization attempts expanding into a new market, a market development strategy characteristically has more risk as compared to a market penetration strategy. The success of the strategy depends on knowledge of new markets, if the managers lack knowledge about the market and the customers, it may result in erroneous market assessment and wrong marketing decisions.

As the market development strategy attempts to increase organizations sales by taking its product into new markets. The two possible approaches of implementing market development strategy are…

1. Develop a new geographical area for the products. This is done by increasing its sales force, appointing new channel partners, sales agents or manufacturing representatives and by franchising its operation; or

2. Develop new market segments. Making minor modifications in the existing products that appeal to new segments.

Market development has similar impact on the five elements.

	Strategy: Market Development		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick		✓	
Resources		✓	
Relationships		✓	

However, since it is the new market, organization does not immediately gain on relationships with stakeholder as well as has to invest more on resources. Market also takes time to respond to its promotional strategies, unless the brand was known to the market earlier.

Product Development Strategy

Customer needs change continuously. It is important for an organization to identify new needs of the customers and develop new products to cater to the new needs of the customer. Expansion through product development comprises development of new or improved products for its current markets. The organization caters to its present markets but develops new products for these markets. Growth will accrue if the new products produce additional sales and market share. The strategy is particularly useful for products that have low brand loyalty and/or short product life cycles.

If the firm's strengths are related to its specific customers rather than to the specific product itself then the product development strategy may be more appropriate. In such situation, company can leverage its strengths by developing a new product targeted to its existing customers. There are inherent risks normally associated with new product development, although the firm operates in familiar markets, product development strategy carries more risk than simply attempting to increase market share.

The three possible ways of implementing the product development strategy are:

Developing new products to expand sales.

Develop different or improved versions of the existing products.

Develop new products making necessary changes in its existing products to suit the different needs of the customers.

	Strategy: Product Development		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick		✓	
Resources		✓	
Relationships	✓		

Product development strategy helps organization in improving the quality of the product currently marketed. Thus, it can leverage the relationships with the stakeholders, but the acceptance to new product, quantity demanded and the resources may be quite different that the one currently used

by the organization, particularly if the product is radically different. For a modified product, organization may not gain significantly on the quality front.

When the customer preferences are shifting faster, organization has to adopt product development strategy. Nokia's failure to retain its position is quite often attributed to not developing product to cater to existing market.

Combination Strategy

For aggressive growth organizations may use combination strategy. Combine Strategy cartels the intensification strategy alternatives i.e., market penetration, market development and product development to grow. In the market development and market penetration strategy, the organization continues with its existing product portfolio, while the product development strategy comprises developing new or improved products, which will satisfy the current market's new needs.

Conditions for Opting for Expansion Strategy

Organizations choose an expansion strategy under the following situations:

When the organization has elevated growth objectives and looks forward to fast and continuous growth in assets, income and profits. Organizations that are keen to achieve large and rapid growth should employ expansion through diversification as that would be especially useful since it involves developing new opportunities outside the domain of current operations.

When mammoth new opportunities are evolving in the environment and the organization is ready and willing to expand its business scope.

Organizations find expansion appealing since sheer size transforms into superior clout.

When an organization is a leader in its industry and wants to protect its leading position.

Expansion strategy is chosen in volatile situations. Substantive growth would act as a cushion in such conditions.

When the organization has spare resources, it may find it utilitarian to grow by levering on its strengths and resources.

When the environment, especially the regulatory set-up, hinders the growth of the organization in its current businesses, it may opt to diversification to meets its growth objectives.

When the organization relishes synergy that arises by tapping certain opportunities in the environment, it opts for expansion strategies. Economies of scale and scope and competitive advantage may accrue through such synergistic operations. Over the last decade, in response to economic liberalisation, some companies in India expanded the scale of existing businesses as well as diversified into many new businesses.

As discussed earlier, companies like KEC International's towering growth came through diversified portfolio.

Organizations employing strengthening strategy focuses on their principal line of business and look for means to meet their growth objectives by increasing their size of operations in this principal business. An organization may expand externally by integrating with other companies. An organization expands its operations by moving into a different industry by following diversification

strategies. Growth of a business enterprise necessitates realignment of its strategies in product – market environment. This is accomplished through the basic growth strategies of intensive expansion, integration, horizontal and vertical integration, diversification and international operations.

An organization can grow by "going international", i.e., by crossing domestic borders by employing any of the expansion strategies discussed so far.

Marico's was the first Indian company to have a manufacturing location in Bangladesh, and its Parachute brand is a leader in its category. Acquisitions in 2005 (Camelia and Aromatic) were followed by the launch of Haircode hair dye in 2009. In 2010, it also launched Saffola Gold, its premium edible oil. Bangladesh was an emerging market, and the company has a strong market there. It's a large country and the story of conversion from unbranded to branded plays out. The company has second largest distribution chain after Unilever[xvi].

Marico's Egypt operations have done reasonably well given the country's tumultuous political conditions[xvii]. It acquired two brands in 2006, Fiancee and Haircode, along with their manufacturing facilities. It set up a greenfield factory in Egypt in 2008, and in 2010, launched its Parachute range of hair creams and hair oils in the Egyptian market. It is a leader in hair styling market. Through Egypt company moved into North Africa, it's future and has huge potential. Marico entered South Africa with the acquisition of the consumer division of Enaleni Pharmaceuticals Limited.

Marico entered Malaysia's hair styling market in 2010 with the acquisition of Code 10 brand from Colgate Palmolive[xviii]. In February 2011, it entered the Vietnam market by acquiring an 85 per cent stake in International Consumer Products Corporation, and with that gained access to brands like Xmen (a leading player in the male grooming segment), L'Ovite, a five ranked premium cosmetic brand in the country, and ThuanPhat, a sources and condiments brand.

Expansion Through Intensification

Organizations that have not entirely exploited the potential opportunities with their existing products in the existing market domain, intensification is quite valuable strategy. The organization employing intensification strategy, should focus on its major line of business and look for means to meet its growth objectives by increasing its size of operations in its major business. Intensification strategy involves expansion within the existing line of business. Intensive expansion strategy involves protecting the present position and expanding in the current product-market space to achieve growth targets. Organizations can achieve intensive expansion in three ways, namely, market penetration, market development and product development first suggested in Ansoff's model.

Organizations can employ intensification strategy if enough growth potential exists in the organization's existing products-market space. However, before employing the strategy organization must evaluate following points…

First preference should be to the one with highest net present value, even if there are number of other alternatives.

Organizations must do the SWOC analysis and establish its competitive advantages. At the same time organization should also foresee competitive reaction to organizations strategy.

Organizations should evaluate the prevailing circumstances and determine the demand for the product and the price consumers are prepared to pay.

Organization's internal environment should support the expansion strategy. Company's financial, technological and managerial competencies should be evaluated before employing the strategy.

Organization should also study external factors in the market with respect to technological, socio-cultural and demographic trends before employing the strategy. External as well as internal factor evaluation is more critical in unstable business environment.

	Strategy: Diversification		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick		✓	
Resources		✓	
Relationships			✓

When organizations employ diversification strategy the quality has to be ensured. But the quantity and the quickness depend upon the size of market and the organizations ability to attract customers. Which also determines the use of resources. However, organization needs to develop new relationships unless it goes for either M&A or Strategic Alliance.

Expansion Through Integration

Integration strategy comprises expanding externally by combining with other firms, as against the intensive growth. Essentially motivated by need for survival and also for growth by creating synergies, grouping includes association and integration among different organizations. Grouping of organizations may take the merger or consolidation path. Merger implies a combination of two or more organizations into one entity. The merged organizations cease to exists and their assets and liabilities are taken over by the acquiring company. A consolidation is a grouping of two or more business units to form an entirely new company. All the original organizations entities cease to exist after the combination. The term merger is usually used to refer to both forms of external growth since mergers and consolidations involve the combination of two or more companies into a single company. As is the case in all the strategies, acquisition is a choice a firm has made regarding how it intends to compete (Markides, 1999). Organizations employ integration strategies to

1. Increase market share,
2. Avoid the costs of developing new products internally and bringing them to the market,
3. Reduce the risk of entering new business,
4. Speed up the process of entering the market,
5. Become more diversified and
6. Quite possibly to reduce the intensity of competition by taking over the competitor's business.

Integration strategies have their own draw backs as well. Integration reduces flexibility as post integration the organization is locked into specific products and technology, financial costs of acquiring another company and difficulties in integrating various operations of the erstwhile firms. There are many forms of integration, but the two major ones are vertical and horizontal integration.

Vertical Integration: Vertical integration refers to the integration of firms involved in different stages of the supply chain, production. A vertically integrated organization has units operating in various stages of supply chain starting from raw material to delivery of final product to the end user. An organization tries to gain control of its inputs, reduce dependency on supplier (called backwards integration) or its outputs, reduce dependency on distributors (called forward integration) or both.

Vertical integration may take the form of backward or forward integration or both. The concept of vertical integration can be picturised using the value chain.

For instance, an organization whose products are made via an assembly process. Such organization may contemplate backward integrating into intermediate production or forward integrating into distribution. Backward integration sometimes is referred to as upstream integration and forward integration as downstream integration. To scale up its power generation and mining operations in Africa, Jindal Steel and Power Limited (JSPL) acquired Canadian mining company CIC Energy corp. The deal gave JSPL access to the Canadian miner's coal reserves in Botswana which was estimated to be around 6 billion metric tonnes. The mines are still in an early stage of development and it would take some time to start production. The reserves will largely cater to operation of its subsidiary Jindal Africa, which is scaling up its power generation and mining operations in Africa[xix]. Acquiring a mining company was to consolidate the mining operations, the group was also interested in the miner's coal reserves in Botswana which was to be used for power generation, a case of backward integration.

Forward integration denotes to moving closer to the end user by increasing control over distribution activities. For example, a personal computer assembler could own a chain of retail stores from which it sells its machines (forward integration). Many firms in India such as MRF Tyres, Maruti Nexa, have set up their own retail distribution systems to have better control over their distribution activities.

Some companies expand vertically backwards and forward. Reliance Petrochemicals grew by leveraging backward and forward integration[xx]: it began with manufacturing of textiles and fibres, moved to polymers and other intermediates then went into the manufacture of fibres, then to petrochemicals and oil refining. In power, Reliance Energy wants to do the same thing and the catchphrase that for this vertical integration is 'from well-head to wall-socket'. Reliance Energy's strategy is to straddle the entire value chain in the power business.

It plans to generate power by using the group's production of gas, transmit and distribute it to the domestic and industrial consumers, reaping the returns of not just generating power using its own gas but selling what it generates not as a bulk supplier but to the end user. In essence, a firm seeks to grow through vertical integration by taking control of the business operations at various stages of the supply chain to gain advantage over its rivals. The record of vertical integration is mixed and hence, decisions should be taken after a comprehensive and careful consideration of all aspects of this form of integration. In most cases the initial investments may be very high and exiting an arrangement that does not prove beneficial may be hard. Vertical integration also requires an organization to develop additional product market and technology capabilities, which it may not currently possess. As discussed earlier Reliance industries is a classic example of vertical integration. Company has also employed horizontal integration strategies as well.

When Jindal Steel and Power Limited (JSPL) acquired Canadian mining company CIC Energy corp many factors were conducive for the deal. Major factor conducive for vertical integration include

1. Taxes and regulations on market transactions,
2. Obstacles to the formulation and monitoring of contracts,
3. Similarity between the vertically-related activities,
4. Sufficient large production quantities so that the firm can benefit from economies of scale and
5. Reluctance of other firms to make investments specific to the transaction.

Since JSPL was already present in Africa with interest in power generation and mining it benefited from the similarity between the related activities, economies of scale and access to coal mines.

Vertical integration may not yield the desired benefit if,

1. Organizations need a critical mass for backward or forward integration. If the quantity required from a supplier is much less than the minimum efficient scale for producing the product, vertical integration is not recommended.
2. Economies of scale also play a major role in make or buy decision. Thus, if the product is widely available commodity and its production cost decreases significantly as cumulative quantity increases, vertical integration strategy is again not recommended.
3. Many business warrant core competencies, or are also heavily R&D driven. If the core competencies between the activities of the two business are very different, organizations should avoid vertical integration.
4. If the vertical integration is unlikely to result in any synergy, either through operations, or managerial competencies. If the vertically adjacent activities are in very different types of industries (For example, manufacturing is very different from retailing.) and vertical integration strategy should be avoided and finally
5. If the addition of the new activity places the firm in competition with another player with which it needs to cooperate. The firm then may be viewed as a competitor rather than a partner.

Firms integrate vertically to

1. Reduce transportation costs, if in a supply chain inbound as well as outbound transportation costs are high or if common ownership results in closer geographic proximity,
2. Enhance supply chain harmonisation,
3. Seize upstream or downstream profit margins,
4. Increase entry barriers to potential competitors, for example, if the firm can gain sole access to scarce resource, or achieves significant economies of scale,
5. Secure access to downstream distribution channels that otherwise would be unapproachable,
6. Enable investment in highly specialized assets in which upstream or downstream players may be reluctant to invest and

It is observed that cultural mismatch among the integrated firms gives paralysing economies of scale than anticipated synergy. The downside risks of an integration strategy to a company include

1. Trouble in effectively integrating the organizations involved, in such cases post acquisition integration should be avoided if possible. Though this may result in duplication of some functions.
2. Due diligence is particularly imperative in integration strategy. Incorrect evaluation of target firm’s value,
3. Overrating the potential for synergy between the companies involved,
4. Forming a combination too outsized to control,
5. The huge financial liability that acquisition entails,
6. Capacity equalizing issues. (For instance, the firm may need to build excess upstream capacity to ensure that its downstream operations have sufficient supply under all demand conditions),
7. Potentially higher costs due to low efficiencies stemming from lack of supplier competition,
8. Decreased flexibility due to previous upstream or downstream investments, (however, that flexibility to coordinate vertically –related activities may increase.),
9. Decreased ability of increase product variety if significant in-house development is required, and
10. Building new core competencies may compromise existing competencies.

Considering all the pros and cons of integration strategies, we look at the alternatives to vertical integration that may provide some of the same benefits with fewer drawbacks. The following are a few of these alternatives for relationships between vertically related organizations.

Long-term explicit contracts

Franchise agreements

Joint ventures

Co-location of facilities

Implicit contracts (relying on firm's reputation)

	Strategy: Vertical Integration		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick	✓		
Resources	✓		
Relationships	✓		

Vertical integration helps in improving quality of product, as the organization gains control over either the suppliers, who can ensure better quality inputs, or better access to customer with control over distribution, depending upon the nature of integration. Backward integration offers control over raw material in terms of quality as well as delivery schedule. Forward integration on other hand ensures better access to customer, customer service etc., thereby improving quality of the product. Vertical integration ensures quickness as well, and ensures quicker access to resources. The acquiring firm also gets access to necessary relationships as well.

The control over quantity remains moderate as integration process does not create new markets.

ii) **Horizontal Integration:** Horizontal growth can be achieved by internal expansion or by external expansion through mergers and acquisitions of firms offering similar products and services. The acquisition of additional business in the same line of business or at the same level of the value chain, same stage of production in (combining with competitors) is referred to as horizontal integration. A firm may diversify by growing horizontally into unrelated business. Integration of oil companies, Exxon and Mobil, is an example of horizontal integration.

The Aditya Birla group acquired Dubai-based ETA Star Cement Company. The purchase was seen as a strategic move. Acquisition of ETA group's cement operation provided UltraTech with direct access to Gulf markets as well as Bangladesh. The acquisition was in line with company's long-term strategy of expanding global presence across businesses and consistent with vision of taking India to the world[xxi]. Apart from the access to Gulf and Bangladesh markets, post-acquisition, UltraTech emerged as India's largest cement producer with 52 million tonnes (mt). A V Birla group had other cement business Grasim and UltraTech. The merger exercise was undertaken with a view to bring about synergies across the same businesses. The Gulf market was expected to grow at 7 per cent. ETA Star's total capacity included a 2.3 mt clinker plant and 2.1 mt grinding plant in the UAE, a 0.4 mt grinding plant in Bahrain and a 0.5 mt grinding plant in Bangladesh. This helped the group expand its base in the region.

Benefits of Horizontal Integration

The following are some of the benefits of horizontal integration:

Since the organization sells more of the same product, it gets economies of scale – for production, distribution and if marketed under same brand name then promotional as well.

Sharing resources common to different products, commonly referred to as 'synergies', company also achieves economies of scope.

With the increased production the bargaining power over suppliers and downstream channel members also increases.

Operating plants in foreign markets, company ensures reduction in the cost of global operations.

Promoting multiple products using the same brand name gives promotional synergy.

Hazards of Horizontal Integration

Acquiring firms market share increases with horizontal integration. Increased market share industry concentration also increases the anti-trust issues. Similarly, as pointed out earlier, the concern is whether the anticipated synergies will materialize or not, if the firms have cultural mismatch. Thus, the due diligence on multiple parameters are necessary.

Another critical factor is M & A do not create new markets. Horizontal acquisitions only increase market share of the organization not the market size. Even the potential benefits of the horizontal merger do not emerge impulsively. Organizations needs to have an unambiguous horizontal strategy to deal with.

Organizations employ diversification strategy for growth. Thus, most of the firms in the industry probably have reached maturity and all of them may employ diversification into new lines of business. Diversification involves moving into new business lines. As the industry matures and consolidates most of the organizations in that industry would have extended the parameters of growth employing vertical and horizontal growth strategies. Hence the next phase of growth can come only through diversification by intensifying their operations into a different industry. Diversification strategy especially make sense when the firm faces uncertain conditions in its core product-market domain.

	Strategy: Horizontal Integration		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick	✓		
Resources	✓		
Relationships		✓	

Apparently horizontal integration ensures improvement in all the five elements. However, the improvement depends on the target. If the acquiring company has better technology, then the product quality can be improved. Unless the nature of two firms, who are in same stage of production in case of horizontal integration, have complementary assets, leveraging horizontal gains is difficult. Integration strategies instantly give access to resources as well as relationships.

Organization's diversification can concentric and conglomerate diversification. Concentric, which refers to related, diversification is suitable when an organization has a strong competitive position but industry attractiveness is low.

On the other hand, a conglomerate, which refers to unrelated diversification, is a suitable strategy when current industry is unattractive and that the organization is deficient of unique and exceptional competencies or abilities in related products or services. Mostly, related diversification strategies have been proved to achieve higher value creation than unrelated diversification strategies. This indicates that there is some advantage attained through collective resources, experience, competencies, technologies or other value creating factors. The synergy effect of diversification indicates whole is greater than the sum of its parts. Although it is difficult to forecast what is a "synergistic" match of a business to its current corporate portfolio, the assessment must be that the business creates new value when it is added to the organization's line of current businesses.

Related Diversification (Concentric Diversification)

In related diversification or concentric diversification, the organization expands into an allied industry, one having synergy with the company's current lines of business, creating a state in which the current and new lines of business share and gain special advantages from commonalities such as technology, customers, distribution, location, product or manufacturing similarities, and government access. In principle, in concentric diversification, the new industry is related in some way to the current one. If existing industry is not very attractive related diversification is often suitable corporate strategy when a company has a strong competitive position and distinctive competencies. An organization is said to have followed concentric diversification strategy when it caters to new product or service area belonging to different industry category but the new product or service is similar to the current one with respect to technology or production or marketing channels or customers. Such diversification may be possible in two ways: internal development through product and market expansion utilizing the existing resources and capabilities or through external acquisitions operating in the same market space.

Addition of lease financing activity in India is a case of market-related concentric diversification. Another type of concentric diversification is technology related in which the firm employs similar technology to manufacture new products.

Unrelated Diversification

In an organization which seeks to grow by adding entirely unrelated products and markets to its existing business the growth strategy employed is conglomerate diversification. Conglomerate is a company that consists of a grouping of businesses from unrelated streams. As a conglomerate diversification strategy, an organization generally introduces new products using different technologies in new markets. This means conglomerate consists of a number of product divisions, which sell different products, principally to their own markets rather than to each other. For a conglomerate, business risks are diversified through profit gained from profit centres in various lines of business. However, each business unit of a diversified conglomerate should be a profit centre for the organization, and not that the profits are cross subsidized to other non-performing units.

During the evolution phase of strategic management conglomerates were immensely popular in the 1960s to 80s. However, late 80s & early 90s in the quest for competitive advantage, sources of competitive advantage within the firm, resource analysis of core competencies, corporate restructuring and business process reengineering, organizations started focusing and outsourcing, many conglomerates reduced their business lines by restricting to a choice few. The reasons for pondering this alternative were largely to seek more attractive opportunities for growth, spread the risk across different industries, and/or to exit an existing line of business. Moreover, this may be an

appropriate strategy when, not only the present industry is unattractive, but the company also lacks exceptional capabilities that it could transfer to related products or industries. However, since it is difficult to manage and excel in unrelated business units, it is often difficult to realize the expected and anticipated results.

In a quest to sticking to its core business, the pace of divestments has gathered momentum in India Inc. DLF, which had a debt of over Rs. 19,000 crores on its balance sheet in 2011-12 started the ball rolling in 2013. It raised $90 million by selling off part of its wind power assets (capacity 150 MW) to Bharat Light & Power. Earlier, it had sold off a 17 acre plot in Mumbai for Rs. 2,700 crore and sold off its stake in Aman Resorts for Rs. 1,650 crore. The decision of companies to stick to its core business also saw Pantaloon selling of its 22.5 per cent stake in Future Generali Insurance business[xxii].

GMR, which had debt of Rs. 28,000 crore on its books in 2011-12, inked an agreement earlier in March with FPM Power Holdings for divesting its 70 per cent equity stake in GMR Energy (Singapore), which holds energy assets in Singapore for a total consideration of $660 million. FMP is a joint venture between first pacific Co and Manila Electric Co[xxiii].

Most companies in the infrastructure sector are nursing huge debts. Advani Enterprises, one of India's fastest growing infra company, had debt of nearly Rs. 52,000 crores as on 31 March 2012[xxiv].

Rationale for Diversification

Some of the most important reasons for diversification are listed below.

Economies of Scale and Scope (Synergy): When companies manufacturing similar products merge, it allows the pooled firms to combine resources and achieve lower operating costs. Merged entity can cut down operating costs and improve operational efficiency by eliminating redundant and overlapping activities. Merged entity can share existing marketing costs, investment, operating and managerial facilities. Reduced overhead costs, and sharing of fixed manufacturing costs also helps reducing costs. An organization with exceptional managerial competencies can acquire a less efficient organization and make it more profitable.

Many Japanese companies have successfully built huge markets overseas and Indian companies are also looking to tap into these markets by inking agreements[xxv].

Being optimistic of the automobile growth in the country and looking to leverage their technologies and international expertise Mitsui, Sanyo Special Steel and Sumitomo inked agreements with Indian companies. The three Japanese companies also scaled up rapidly to meet the expected surge in demand for auto ancillary products.

While a lot of Japanese companies have built up a presence in the auto and auto ancillary sector, Indian companies were also looking to tap Japanese technology in other sectors.

Through pooled financial resources or simply through pooled risk organizations can achieve efficiencies.

Widen Market Base and Enhance Market Power: Companies ambitious of increasing the market for the its products enter into collaborations and acquisitions. Aditya Birla group company Grasim, signed an agreement with Omikenshi for jointly developing new internal markets for functional rayon products. Besides expanding markets for its products Grasim was also looking to collaborate in a joint R&D programme[xxvi].

Profit Stability: If the core business of the company depends on sales that are seasonal or cyclical, a large number of these organizations chase diversification strategy to escape instability in sales and profits which can result from events such as cyclical and seasonal changes in demand, changes in the life cycles and other undermining forces in the micro, meso and macro environment. Acquisition of

new business can decrease disparities in corporate profits by expanding the company's lines of business.

Growth: Growth is a basic objective of most of the companies for diversification. Diversification allows companies to grow faster than intensification strategy. Particularly when the current products and markets have come to a level of maturity, further growth is difficult; the only option the management has is to diversify into new terrains. Moreover, mergers and acquisitions as a strategy offers quicker results compared to organic growth as the resources, skills, other factors essential for faster growth are immediately available.

Counter Competitive Threats: Apart from giving immediate access to the resources of the target firm, M&As reduce the competitive pressure. Mergers and acquisition as a strategic move are expected to counter the competitive threats by reducing the intensity of competition.

Access to Latest Technology: As discussed earlier, many Indian firms enter into strategic alliances with foreign company to gain access to the latest technologies without spending huge amount of money on R&D. Grasim signed an agreement with Omikenshi for jointly developing new international markets for functional rayon products. Besides expanding markets for its products Grasim also looked to collaborate in a joint R&D programme.

Regulatory Factors: Many a times various governments offer incentives to attract investment. A large number of organizations, to take advantage of these incentives, have diversified their operations geographically to exploit opportunities in different regions and countries.

Improve Financial Performance: The core business of an organization endures itself on its lucrative projects, and invests this cash to build new ventures that generate additional profits. An organization may also be attracted to pursue diversification opportunities because it has liquid resources far in excess of the total development needs. Large firms generate cash that can be invested in other ventures. The firm acts as a banker of an internal capital market. Sometimes a company may seek a merger with another organization with the intention of tiding over its financial problems.

Alternative Routes to Diversification

Mergers and Acquisitions

In a merger two or more companies come together to form a new company. A merger is a legal transaction in which two or more organizations combine operations through an exchange of stock. The erstwhile companies cease to exist. In a merger, only one organization entity will eventually remain.

On the other hand, an acquisition is a case of purchase of one organization by another. Thus, one of the companies unilaterally relinquishes its existence. In recent years, there were quite a few acquisitions in which the target firms resisted the take-over bids. These acquisitions are referred to as hostile takeovers. It is natural for the target organization's management to try to defend against the takeover. Although they are used synonymously, there is a distinction between the term 'merger' and 'acquisition'.

A corporate merger is fundamentally a grouping of the assets and liabilities of two companies to form a single business entity. To be precise, only a corporate grouping in which one of the companies survives as a legal entity is called a merger. In a merger of firms that are approximate equals, there is often an exchange of stock in which one firm issues new shares to the shareholders of the other firm at a certain ratio. A merger happens when two firms, often about the same size, agree to unite as a new single company rather than remain as separate units. This kind of action is

more precisely referred to as a "merger of equals." Both companies' stocks are surrendered, and new company stock is issued in its place.

A merger of equals doesn't occur quite frequently in practice. Often, a company buying another allows the acquired firm to announce that it is a merger of equals, even though it is technically an acquisition. This is done to overcome some legal restrictions on acquisitions.

When a company takes over another to become the new owner of the target company, the purchase is called an acquisition. From the legal angle, the 'target company' ceases to exist and the buyer "gulps down" the business and stock of the buyer continues to be traded.

Strategic Partnering

When two or more organizations establish a relationship that combines their resources, capabilities, and core competencies to achieve some business objective it is termed as strategic partnering. There are three major types of strategic partnerships:

Joint ventures,

Long-term partnerships, and

Strategic alliances.

Joint Ventures: When two or more organizations create a separate, independent organization for strategic purpose it is termed as Joint Venture. Joint Venture partnerships are typically focused on undertaking a specific market objective. The Joint Venture partnerships may last from a few months to a few years and often involve a cross-border relationship. A company may purchase a percentage of the stock in the other company, but not a controlling share. The joint ventures between various Indian and foreign companies such Hindustan Motors and General Motors, Hero Cycles with Honda Motor Company, Wipro and General Electric, etc are examples of such strategic partnering.

Long-Term Contracts: In Long-term contracts, two or more companies enter a legal contract for a specific business purpose. Long term contracts are considered to be more flexible and less inhibiting than vertical integration. Long-term contracts are common between a buyer and a supplier. Compared to joint venture, long term contracts are easier to end in case of unsatisfactory performance. Japanese automakers also enter into long term contract arrangements with their vendors frequently.

Strategic Alliances: Two or more organizations share resources, capabilities, or distinctive competencies to pursue some business purpose in a strategic alliance. Strategic alliances often rise above the narrower focus and shorter duration of joint ventures. Strategic alliances may be aimed at world market dominance within a product category. While the partners cooperate within the boundaries of the alliance association, they often compete aggressively in other parts of their businesses.

	Strategy: Joint Venture, Long term contract, Strategic Alliances		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick	✓		
Resources	✓		
Relationships	✓		

Companies looking forward to improving quality of the product one of the quickest ways to improve the quality is to have a Joint Venture, Long term contract, Strategic Alliances depending upon the feasibility and due diligence, with organization having latest technologies. If the technology gap is wide JVs should be a preferred strategy. JV also ensure quickness, access to resources as well as relationships.

Mergers and Acquisitions (M&A)

One plus one is more than two, is what the mergers and acquisitions look for. The principal motive behind merger and acquisition is to maximize shareholder wealth, companies are more valuable together than standalone. Mergers and acquisitions and corporate restructuring—or M&A for short—are a big part of the corporate finance. For a target company M&A is attractive when times are challenging. By coming together companies get a bigger market share and hope to achieve greater efficiencies. Normally, stronger companies will act to buy other companies to form a more competitive, cost-efficient company. However, it is not that the big fish will eat small fish. Tata group made its first significant overseas foray. With exchange control still relatively tight, Tata group made a leveraged transaction to buy out Tetley, UK's most famous tea brand. This was a huge boost for Tata Tea, which now had control over a key brand that could be a permanent important customer for Indian plantations[xxvii]. The potential benefits companies look forward to while coming together are a surge in market share or greater efficiencies. Tetley got the access to plantation in India and Indian plantation got a permanent customer in the form of UK's most famous tea brand.

The term "acquisition" is usually used when a larger firm absorbs a smaller firm and "merger" is used when the combination is portrayed to be between equals. For the sake of discussion, the firm whose shares continue to exist, may be under a different company name, will be referred to as the acquiring firm and the firm's whose shares are being replaced by the acquiring firm will be referred to as the target firm.

The main reason quoted for many M&As is synergy. Synergy is often manifested in the form of revenue enhancement and/or cost savings. Merging companies expect to benefit by virtue of economies of scale, improved market reach, staff cutbacks, acquisition of technology and industry visibility. However, achieving synergy requires lot of due diligence, done-synergy is not routinely realized once two companies merge. Naturally, when two businesses are combined, it should result in improved economies of scale, but sometimes it works in reverse. In many cases, one and one add up to less than two. One of the reasons for not realizing the economies of scale is cultural mismatch. Cultural mismatch instead of giving anticipated synergy results into paralysing economies of scale.

Excluding any synergies resulting from the merger, the total post-merger value of the two firms is equal to the pre-merger value, if the 'synergistic values' of the merger activity are not measured. However, the post-merger value of each individual firm is likely to be different from the pre-merger value because the exchange ratio of the shares will not exactly reflect the firms' values compared to each other. The exchange ratio is distorted because the target firm's shareholders are paid a premium for their shares. Synergy takes the form of revenue enhancement and cost savings. When two companies in the same industry merge, the revenue will decline to the extent that the businesses overlap. Hence, for the merger to make sense for the acquiring firm's shareholders, the synergies resulting from the merger must be more than the value lost initially.

Different forms of Mergers

Depending on the relationship between the two companies that are merging, there are different forms of mergers. These are:

> **Horizontal Merger:** When the two or more merging companies are in direct competition in the same (stage of production) product categories and markets.

Vertical Merger: When the two or more merging companies are in different stages (successive stages of production) of the supply chain. Also called as vertical integration. A company taking over its supplier's firm or a company taking control of its distribution by acquiring the business of its channel partners or distributors are examples of this type of merger.

Conglomeration: When two or more merging companies have no common business areas.

Market-extension Merger: When two or more merging companies sell the same products in different markets.

Product-extension Merger: When two or more merging companies sell different but related products in the same market.

The finance standpoint categorizes mergers in three types: pooling of interests, purchase mergers and consolidation mergers. Each has certain implications for the companies and investors involved:

Pooling of Interests: A pooling of interests is generally accomplished by a common stock swap at a specified ratio. This is sometimes called a tax-free merger. Such mergers are only allowed if they meet certain legal requirements. A pooling of interests is generally accomplished by a common stock swap at a specified ratio. Pooling of interests is less common than purchase acquisitions.

Purchase Mergers: As the name suggests, this kind of merger occurs when one company purchases another one. The purchase is made by cash or through the issue of some kind of debt investment, and the sale is taxable. Acquiring companies often prefer this type of merger because it can provide them with a tax benefit. Acquired assets can be "written up" to the actual purchase price, and the difference between book value and purchase price of the assets can depreciate annually, reducing taxes payable by the acquiring company. Purchase acquisitions involve one company purchasing the common stock or assets of another company. In a purchase acquisition, one company decides to acquire another, and offers to purchase the acquisition target's stock at a given price in cash, securities or both. This offer is called a tender offer because the acquiring company offers to pay a certain price if the target's shareholders will surrender or tender their shares of stock. Typically, this tender offer is higher than the stock's current price to encourage the shareholders to tender the stock. The difference between the share price and the tender price is called the acquisition premium. These premiums can sometimes be quite high.

Consolidation Mergers: When a new company is formed to combine the assets of the combining companies and the stock of the consolidated company is issued to the shareholders of both companies and the existing companies are dissolved, then the merger is called consolidation.

The tax terms are the same as those of a purchase merger. Banking sector in India is currently undergoing consolidation phase.

Acquisitions

As discussed earlier, an acquisition is a little different than a merger. In acquisitions as a strategy, like mergers, companies chase economies of scale, efficiencies, and greater market prominence. However, unlike all mergers, all acquisitions involve one firm purchasing another—there is no exchanging of stock or consolidating as a new company, acquired companies unilaterally relinquish their existence. In an acquisition, a company can buy another company with cash, stock, or a combination of the two. In smaller deals, it is common for one company to acquire all the assets of another company. Another type of acquisition is a reverse merger, a transaction that enables a private company to get publicly listed in a reasonably short time period. A reverse merger occurs when a private company that has strong prospects and is eager to raise finance buys a publicly listed shell company, usually one with no business and limited assets. The private company reverse merges

into the public company and together they become an entirely new public corporation with tradable shares. Irrespective of the type of combination, all mergers and acquisitions have one thing in common: they are all intended to generate synergy and the success of a merger or acquisition centres on how well this synergy is achieved.

Merger and Acquisition Strategy

Mergers and acquisitions strategy is employed for many reasons. The reasons usually are associated to business apprehensions such as growth, resource, product, marketing, efficiency, competition, and tax issues. They can also occur because of ambitions of the CEO, and some very personal reasons such as retirement and family concerns. Some people are of the opinion that mergers and acquisitions also occur because of corporate greed to acquire everything.

Reasons for M&A include:

Growth: Companies take the M&A course to seize the opportunities for growth or accelerate the growth of the company. M&A give instant access to the acquiring company to the resources, competencies and facilities of the target company.

Reduce Competition: Especially in case of horizontal M&As, one foremost reason for companies to employ the strategy is to reduce competition. Acquiring a competitor is an excellent mean to improve a firm's competitive position in the marketplace. It eliminates the competition and allows the acquiring firm to use the acquired firm's resources and expertise. However, with the stringent regulations, grouping or even for that matter making a cartel to set a minimum price or reduce competition, is as such not legal and under the Antitrust Acts it is considered a predatory practice. Whenever a merger is proposed, companies make an effort to elucidate that the merger is not anti-competitive and is being done solely to serve the consumer better. Even if the merger is not for the stated purpose of eliminating competition, regulatory agencies may conclude that a merger is anti-competitive. However, there are a number of acceptable reasons for grouping of firms.

Cost Efficiency: Economies of scale are enjoyed by the larger firms. However, due to technology and market conditions, it is possible that there is absence of economies of scale, or in other words cost advantages are independent of scale. The general assumption is that larger firms are more cost effective than are smaller firms, with fragmented markets, however, it may not always cost effective to grow, or at least reap the benefit of scale of operation.

Moreover, larger companies are not necessarily more efficient than smaller companies, in spite of the stated reason that merging will improve cost efficiency. Further, some large companies display diseconomies of scale, which means that the average cost per unit increases, particularly if the capacity augmentation is in large increments, as total assets grow too large. Some industry analysts even suggest that the top management go in for mergers to increase its own prestige. Certainly, managing a big company is more prestigious than managing a small company.

Avoid Being a Takeover Target: To avoid becoming a target company (for acquisition) is another reason that companies merge. Companies that have a large quantity of liquid assets are attractive takeover target because the acquiring firm can use the liquid assets to expand the business, pay off shareholders, etc. If the targeted company invests current funds in a takeover, it discourages other companies from targeting it because it is now larger in size, and will, therefore, require a larger tender offer. The company can use its excess liquid assets to acquire companies, and makes itself more difficult to be acquired. Many conglomerate mergers were motivated by investing excess funds in acquiring other companies, as this was the best possible investment for the liquid cash.

Improve Earnings and Reduce Sales Variability: Companies having seasonal demand for its products can improving earnings, bring in sales stability and reduce corporate risk by acquiring a company that has more stable demand. It is also possible to acquire company with complementary nature with respect to seasonal demand. However, this may prove to be an inefficient strategy as the nature of products is different leveraging the managerial competencies could be a challenge.

Market and Product Line Issues: Identifying product gaps and bridging them with new products of product lines with M&A gives the firm instant entry to target markets. The target firm's competencies, resources and managerial experience are readily available for immediate use. Most acquisitions are motivated for this reason. Quick market entry or expansion is one of the dominant reasons for a merger and acquisition. Product line concerns also exert dominant stimulus in merger decisions. A firm may wish to expand, balance, fill out or diversify its product lines. Acquisition of Tetley by Tatas, CIC Energy Corp by JSPL are classic examples here.

Acquire Resources: Combining the resources of the two firms is another motivation for acquisition. Firms wish to acquire the resources of other firms. Resources may be tangible such as plant and equipment, or they may be intangible resources such as trade secrets, patents, copyrights, leases, management and technical skills of target company's employees, etc. This only proves that the reasons for mergers and acquisitions are quite similar to the reasons for buying any asset: to purchase an asset for its utility. Intellectual Property Rights are also traded like fixed assets.

Synergy: Economies of scope occur when two companies combine and the combined company is more cost efficient at the activities erstwhile companies were involved in. Companies experience synergies if each requires the same resources and competencies but the impact is more than the arithmetical sum, meaning one plus one is more than two. Synergy is similar to the concept of economies of scope. Although synergy is often cited as the reason for conglomerate mergers, cost efficiencies due to synergy are difficult to document.

Tax Savings: When a purchase of either the assets or common stock of a company takes place, the tender offer less the stock's purchase price represents a gain to the target company's shareholders. Consequently, the target firm's shareholders will usually gain tax benefits. However, the acquiring company may reap tax savings depending on the market value of the target company's assets when compared to the purchase price. Also, depending on the method of corporate combination, further tax savings may accrue to the owners of the target company. Although tax savings is not a primary motive for a combination, it can certainly "sweeten" the deal.

Cashing Out: When the promoters of the firm want to exit the business for any reason, they may decide to sell the company to another company. Particularly, for a family-owned business, when the titleholders wish to retire, or otherwise leave the business and the next generation is indifferent in the business, the owners may decide to sell to another firm. For purposes of retirement or cashing out, if the deal is planned correctly, there can be significant tax savings.

M&A as a strategy is employed by the companies to seize the opportunities for growth, accelerate the growth of the firm, access capital and brands, gain complementary strengths, acquire new customers, expand into new product- market domains, widen their portfolios and become a one-stop-shop or end-to end solution provider of products and services.

Reasons for Failure of Merger and Acquisition

Corporate success through mergers and acquisitions world over has not been inspiring. Past trends show that roughly two thirds of all big mergers have not produced the desired results.

Dennis Mueller's study of acquisitions between 1950 and 1972 concluded that target companies achieved smaller market shares as a result of being acquired. When compared with similar firms that

remained independent, the acquired firms grew less quickly. Merged firm increased its assets and revenues as a result of the acquisition, but the acquired business entity was likely to grow more slowly than it would have had it not been acquired[xxviii].

David Birch and his associates at the Massachusetts Institute of Technology have reached a similar conclusion by measuring the rate at which firms add new employees. They found that firms employed more workers as a result of acquisition and that some resulting firms continued to exceed the average rate at which firms added employees. But when the growth rate of the resulting firm was matched with firms that had been growing as fast as the targets, the comparable firms that remained independent grew at a faster rate[xxix].

Supporters of M&As claim that they boost revenues to justify the price premium. The notion of synergy, '1+1 > 2', together the firms are more than their arithmetic sum, or the combined entity is better than the stand along companies, sounds great, but the expectations behind this notion are too naïve. In actual life things are not that simple and rosy. Rationale behind mergers can be inconsistent and efficiencies from economies of scale may prove indefinable. Moreover, the problems associated with trying to make merged entities work cannot be overcome easily.

A successful diversification should comprise a well-crafted strategy in choosing a target, avoiding over-paying, generating value in the integration process.

The probable difficulties that a firm is likely to come across during diversification comprise:

Integration Difficulties: Following mergers and acquisition, integrating two companies can be rather difficult. Blending two incongruent corporate cultures, connecting different financial and control systems, structuring effective financial and control systems, developing effective working relationships, etc., will be issues that will come to the fore and they have to be contended with.

Faulty Assumptions: Many top strategy managers try to replicate others in endeavouring mergers, which can be catastrophic for the company. A prosperous stock market boosts merger, which can spell danger. Transactions done with highly rated stock as currency appear easy and cheap, but underlying assumptions behind such transactions is seriously flawed. Mergers are quite frequently more to do with personal triumph than business growth.

Fear psychosis also drive mergers, fear of globalization, rapid technological advances, dynamic economic scenario that increases ambiguity, all can create a strong stimulus for defensive mergers. Sometimes the management feels that only big players will survive in a competitive world and they have no choice but to acquire a raider before being acquired.

Failure to carry out effective due-diligence: Due diligence in M&A comprises a thorough review by the acquirer of a target company's internal books and operations. An effective due-diligence process scans a large number of items in areas as diverse as those of financing the intended transaction, differences in cultures between the two firms, tax concessions of the transaction, etc. The failure in comprehensive due-diligence often leads to the acquiring firm paying disproportionate premiums. Transactions are often made depending upon the resolve of the due diligence process.

Inordinate increase in debt: Some companies considerably raise their levels of debt to finance acquisitions. This is likely to increase the probability of bankruptcy leading to downgrading of firm's credit rating. Debt also prohibits investment in areas that contribute to a firm's success such as R&D, human resources development and marketing.

Too much diversification: Indications are that a large size creates efficiencies in various organizational functions when the firm is not too large. At some level the costs required to manage the larger firm exceed the benefits of efficiency created by economies of scale. The merger route can lead to strategic competitiveness and above-average returns. By over diversification, firm's may

lose their competitive edge. The threshold level at which a company may lose its competitive edge varies across companies, the reason being that different companies have different capabilities and resources that are required to make the mergers work. Overpassing these threshold limits can result in overstretching these capabilities and resources leading to deteriorating performance.

Problems in making M&A work: Mergers can distract management from company's core business, spelling trouble for the company. Corporate cultures of the companies are very different; this further obstructs the chances for success. When a company is acquired, cultural differences are often ignored, the decision is typically based on product or market synergies. Ignoring cultural differences is a mistake, to assume that these issues can be easily overcome is wishful thinking. Companies often focus too narrowly on cutting costs following mergers, without paying attention to revenues and profits. The cost-cutting focus can divert attention from the day-to-day business and poor customer service. This is the main reason for the failure of mergers to create value for shareholders.

However, not all mergers fail. Size and global reach can be advantageous and tough managers can often squeeze greater efficiency out of poorly run acquired companies. The success of mergers, however, depends on how realistic the managers are and how well they can integrate the two companies without losing sight of their existing businesses. Though the acquisition strategies do not consistently produce the desired results, some studies suggest certain decisions and actions that firms may follow which can increase the probability of success. The attributes leading to successful acquisition suggested by various studies are that the:

Acquired firm has assets or resources that are complimentary to the acquiring firm's core business.

Acquisition is friendly.

Acquiring firm selects target firms and conducts negotiation carefully and methodically.

Acquiring firm has adequate cash and favourable debt position.

Merged firms maintains low to moderate debt position.

Acquiring firm has experience with change and is flexible and adaptable.

Acquiring firm maintains sustained and consistent emphasis on R&D and innovation.

When employed with due diligence and carefully drafted integration strategy, M&A are inevitable for growth. Companies looking forward to improving quality of the product one of the quickest ways to improve the quality is to go for M&A depending upon the feasibility and due diligence. One of the additional advantage M&A offers compared to JV, SA and Long-Term Contracts is quantity, though it may come at the cost of resources. Organization can divert resources to another purpose if they are overlapping and minimize the loses on account of underutilized resources, if any post M&A. Sharing of resources may also offer price competitiveness.

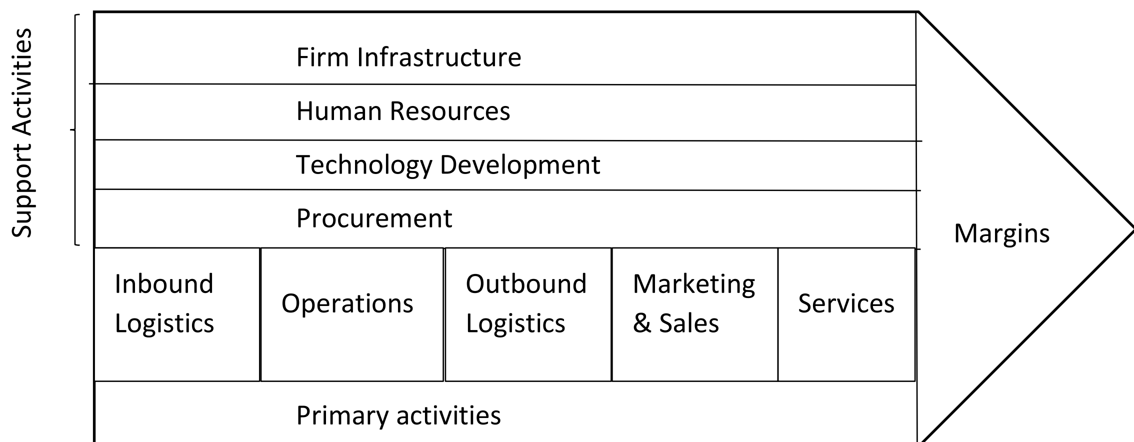
	Strategy: Mergers & Acquisition		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick	✓		
Resources	✓		
Relationships		✓	

Value Chain Analysis

To add value to the offering organization must improve quality, but not by increasing the selling price. Porter's Value Chain Analysis (Michael Porter. *Competitive Advantage* 1985) consists of a number of activities, namely primary activities and support activities. Primary activities have an immediate effect on the production, maintenance, sales and support of the products or services to be supplied.

Inbound Logistics are all processes that are involved in the receiving, storing, and internal distribution of the raw materials or basic ingredients of a product or service. The relationship with the suppliers is essential to the creation of value in this matter. They include materials handling, stock control, transport etc.

Operations involves all the activities (for example production floor or production line) that convert inputs of products or services into semi-finished or finished products. Operational systems are the guiding principle for the creation of value. These include – machining, packaging, assembly testing etc.



Value Chain

Outbound logistics are all activities that are related to delivering the products and services to the customer. These include, for instance, storage, distribution (systems) and transport. For tangible products this would be warehousing, materials handling, transportation etc. In the case of services activity may be more involved with arrangements for bringing customers to the service if it is a fixed location (e.g. amusement parks, zoo etc).

Marketing and Sales are all processes related to putting the products and services in the markets including managing and generating customer relationships. This includes promotion of products, sales administration and so on. The guiding principles are setting oneself apart from the competition and creating advantages for the customer.

Service includes all activities that maintain the value of the products or service to customers as soon as a relationship has developed based on the procurement of services and products. The Service Profit Chain Model is an alternative model, specific designed for service management and organizational growth. They are concerned with activities that help improving the effectiveness or efficiency of primary activities.

Support activities of the Value Chain Analysis

Firm infrastructure enables the organization to maintain its daily operations. Line management, administrative handling, financial management are examples of activities that create value for the organization. Each of the groups of primary activities is linked to support activities which are as follows:

Procurement is a process for procuring the various resource inputs to the primary activities and this is present in many parts of the organization. Procurements are all the support activities related to procurement to service the customer from the organization. Examples of activities are entering into and managing relationships with suppliers, negotiating to arrive at the best prices, making product purchase agreements with suppliers and outsourcing agreements. Organizations use primary and support activities as building blocks to create valuable products, services and distinctiveness.

Technology Development: There are key technologies attached to different activities which may be directly connected with the product or with processes or with resource inputs. Technology development activities relate to the development of the products and services of the organization, both internally and externally. Examples are IT, technological innovations and improvements and the development of new products based on new technologies. These activities create value using innovation and optimization.

Human Resource Management: This is an area involved with recruiting, managing, training, developing and rewarding people within the organization. This categorization of the activities as primary or support may be found true for organizations in general, however it is always better to have one's own judgment in identifying activities for particular firms in consideration. Human resource management includes the support activities in which the development of the workforce within an organization is the key element. Examples of activities are recruiting staff, training and coaching of staff and compensating and retaining staff.

Firm's Infrastructure: Execution of strategy warrants coordination and integration among various departments and units within and outside the organization. Sound infrastructure of the firm helps in executing the strategies. For decision making at every stage the firm needs information systems. The quality of planning depends on the accessibility of the information and the infrastructure firm develops. Planning also needs accurate and timely information on environment. Thus, the organization needs a very sound infrastructure as a support activity.

As discussed earlier, value is always in the eyes of the beholder. Consumer may not necessarily appreciate value offered by the organization. This leads to companies making multiple value propositions by segmenting a market. Yet the practice can be followed by competitors as there are no barriers to followership. However, if the company concentrates on quality, by better inputs, processes of converting raw material into final output, barriers get created for followership. This can be achieved by concentrating on Resources, material, machine and manpower. Porters value chain analysis considers these as secondary activities in terms of firm's infrastructure, Human Resources and Procurements.

Decision making with respect to all the above activities becomes easier if organization frames strategies and states the policies for each step. Developing a system for these decisions making along with framing the organizational structure ensures elimination of unnecessary activities and speeds up the decision making.

Ruchi Soya[1] is a classic example of integrated player in the edible oil business with a presence across the entire value chain. The company is active in the export market having emerged a niche player in

[1] Patanjali Ayurved Ltd. acquired Ruchi Soya Industries Ltd. In 2019

soya bean meal, which is in high demand, particularly in Southeast Asia, the Far East and Middle East. It also exports high-end value-added products like edible de-fatted soya flour, full fatted edible flour, soya lecithin, soya granules, soya flakes and soya chunks. The company exported soya meal and soya lecithin. Godrej group chairman Adi Godrej considered Ruchi Soya a successful company in the oilseeds, vegetable oils and added value products business.

As a part of marketing and sales activity, Ruchi transformed itself from being a commodities trader and one processing oils to a complete foods company with branding of all its products. With a strong portfolio of brands that included ready-to-eat vegetarian fare, Nutrela soya foods, refined oils and table spread, Sunrich sunflower oil, mass edible oil brands Ruchi Gold and Ruchi Star, and Mahakosh refined soya bean oil. Ruchi No. 1 is a leading edible oil and vanaspati brand, while Ruchi Gold is palmolein brand.

Though India was the world's fifth largest producer of soya beans, its productivity of just 1.02 tonnes per hectare was less than half the global average of 2.5 tonnes. India was thus a net importer of soya bean oil, purchasing almost 1.2 million tonnes yearly. Ruchi forged a joint venture with DJ Hendrick International, Inc. (DJHII), Canada's leading centre of excellence for developing non-GM (non-Genetically Modified) soya beans, and KMDI International of Japan, a trader and marketer of high-quality food-grade soya beans, for researching, producing, marketing and distributing high-yield non genetically modified soya beans in India[xxx]. The joint venture combined the expertise of each partner towards enhancing the low yields in India, thus reducing import dependency through improving the oil content of domestically grown soya beans, ensure steady flow of input to Ruchi, benefit public health, conserve precious foreign exchange, raise farmer incomes, and improve the rural economy.

On quality front, Ruchi Soya steered clear of GM seeds or crops, as research globally testified that such 'tampered food' can be detrimental to health.

Ruchi entered into 51:26:23 Joint Venture (JV) with Japan's edible oil major J-Oil Mills Inc. (J-Oil) and global trading company Toyota Tsusho Corporation (TTC). Ruchi transferred its soya processing plant at Shujalpur, in Madhya Pradesh, to the JV for producing and marketing high quality functional edible oils. J-Oil provided technical assistance and TTC provided management assistance for internal control and access to internal markets through its network[xxxi]. The JVs supplemented the R&D capabilities of Ruchi to focus on new product development and modern testing and quality control laboratories across India.

The company replicated its business model for soya for palm oil. Already the largest branded palm oil marketer and palm processor in the country, Ruchi consolidated its sourcing strengths to process imported palm oil as well as that grown by contract farmers. Self-sufficiency in raw material sourcing was the key to insulate from short supplies and spiralling prices in the long run. Achieving back integration in palm plantations was imperative to complete value chain and accord a fillip to the palm oil business. Once Ruchi forayed into palm oil plantation, company was allotted a combined 2,06,000 hectares of land banks by the governments of Andhra Pradesh, Gujarat, Mizoram, Tamil Nadu, Odisha, Karnataka and Chhatisgarh, 58,350 hectares of this in Andhra and 52,457 hectares in Gujarat. The company works closely with farmers in the seven states, where it maintains 22 nurseries with 3.39 million seeding stock. Company operates four mills in Andhra with an aggregate FFB (Fresh Fruit Bunches) processing capacity of 125 tonnes per hour. The tripartite agreement between Ruchi, the state governments and farmers grant exclusive rights to the company to procure FFBs from farmers, who are paid fortnightly by direct bank transfers. Thus, it ensures a steady supply of inputs.

Sunflower alongside palm, are the two fastest growing categories of edible oils, Ruchi launched its Sunrich refined sunflower oil brand in Odisha.

The share of branded oil segment has remained low over the years, it is poised for growth in view of the rising income levels, an uptrend in urbanisation, and the increasing quality consciousness of Indian consumers. While edible oils constitute an important component of food expenditure in Indian households, the industry is highly fragmented. This has resulted in severe competition and inherently thin profitability margins, leading many inefficient units to down shutters. Almost 80 per cent of soya processors have vanished over the past 20 years. Noted investment information and credit rating agency ICRA.

Diversified product portfolios, multiple manufacturing units, and pan-India operations mainly in the branded segment have sustained the presence of major enterprises like Ruchi Soya, Marico Ltd, Adani Wilmar Ltd and KS Oils. ICRA believes that by virtue of their scale, these larger manufacturers are advantaged by access to cheaper working capital credit and savings in production costs that have enabled them to withstand margin pressures and difficult industry conditions.

In case of Ruchi Soya, its dependency reduction strategy on procurement, operations through JV, distribution network, focused marketing efforts and developing brands, gave it a competitive advantage in highly fragmented, intensely competitive with thinly profitable market. Additional value created at each stage, helped the company making higher profits either by charging more or deliver same value at lower cost. This eventually improves the organization's financial performance.

Select guiding points for evaluation

	Positive	Negative
Internal factors	**Strengths** Technological skills Leading brands Distribution channels Customer loyalty/relationship Production quality Scale Management	**Weakness** Absence of important skills Weak brands Peer access to distribution Low customer retention Unreliable product/service Sub-scale Management
External factors	**Opportunities** Changing customer tastes Liberalisation of geographic markets Technological advances Changes in government policies Lower personal taxes Change in population age structure New distribution channel	**Threats** Changing customer tastes Closing of geographic markets Technological advances Changes in government policies Tax increases Change in population age structure New distribution channel

To use value chain analysis framework productively organizations must evaluate primary as well as secondary activities.

Select guiding points for evaluating primary activities

a) **Inbound Logistics**

Important issues in inbound logistics are the relationship with suppliers; JIT delivery; cost structure of raw material. Soundness of material and inventory control systems. Self-sufficiency in raw material sourcing to insulate from short supplies and spiralling prices in the long run. Achieving back integration in palm plantations to complete value chain and

accord a fillip to the palm oil business. Ruchi Soya reduced import dependency through improving the oil content of domestically grown soya beans.

Competencies in handling raw material, warehousing activities.

b) **Operations:**

Important issues in operations are labour & capital utilization; cycle time; quality etc. Ruchi Soya ensure through JVs

Operational efficiency with respect to handling of equipment vis-a-vis key competitors.
Suitable automation of production processes.
Effective control systems to improve quality and reduce cost.
Effective plant layout and work flow design.

c) **Outbound Logistics**

Outbound logistics are characterized by the channels of distribution; intermediaries and their timeliness and efficiency of delivery of finished goods and services. Ruchi Soya ensured it through own distribution and managerial expertise from JV partners.

Effective finished goods warehousing activities

d) **Marketing and Sales:**

Marketing and sales must ensure customer acquisition, method & effectiveness of marketing; cost of customer acquisition; sales force issues. Ruchi Soya ensured that it had effective market research to identify customer segments and needs, diversified product portfolios, multiple manufacturing units, and pan-India operations mainly in the branded segment. Organizations should also look at…

Novelty in sales promotion and advertising.
Assessment of different distribution channels
Motivation and skills of sales force
Building of an image of quality and a favourite reputation
Degree of market dominance within the market segment or overall market

e) **Customer Service**

Processes to invite customer input for product improvements
Timeliness of consideration to customer complaints
Relevance of warranty and guarantee policies
Facility to provide replacement parts and repair services

Select guiding points for evaluating Support activities

Firm Infrastructure: Ruchi Soya's management information systems played a major role in diversification and introduction of new products to build the product portfolio. Firm developed effective infrastructure. Following points are important while developing firm's infrastructure

To facilitate strategy execution firm's infrastructure must have good coordination and integration among units.

Quality decision making depends on firm's information system.

Sound infrastructure while ensuring information systems help in quality of planning.

Access to accurate and updated information on environment

Human Resource Management: Strategy execution is done through the human resources. Thus, organization must pay attention to…

Effectiveness of recruitment, training procedures
Pertinence of reward systems
Trade union relationship
Employee motivation and job satisfaction

Technology Development

Accomplishment of R & D environment
Excellence of laboratories and other facilities
Ability of work environment
Qualification and experience of technical personnel.

Procurement

Bases of raw material – time, cost, quality
Procurements procedures
Suppliers relationships with firm

Five elements and Value Chain Analysis

Quality of product can be improved by appropriate use of VCA. Control over supplier, best in class operations, technology can help company improve its product quality. Skilled human resource, procurement practices and firm's infrastructure can augment the quality of product.

Quantity is ensured by efficient operations and inbound logistics and technology. Higher demand generated through effective marketing and sales function can augment the demand leading to higher quantity.

Organizations looking forward to quickness should improve their inbound, outbound logistics and infrastructure.

VCA also helps in managing resources better. Efficient inbound logistics and outbound logistics will help organization manage its resources better.

The relationship with supplier, distributors ensure efficiency in logistics and thus better margins.

	Strategy: Value Chain Analysis		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick			✓
Resources	✓		
Relationships	✓		

Value Chain Analysis helps in improving quality of the product, service. It also improves resources if the organization undertakes vendors and supplier development by providing assistance and actively participating in their operations. VCA also helps in developing better relationships.

Generic Strategies:

Michael Porter has suggested three generic strategies – overall cost leadership, differentiation, and focus.[xxxii]

Generic Strategies

<table>
<tr><td></td><td></td><td colspan="2">Strategic Advantage</td></tr>
<tr><td></td><td></td><td>Low Cost</td><td>Uniqueness Perceived</td></tr>
<tr><td rowspan="3">Strategic Target</td><td>Industrywide</td><td>1. Overall Cost Leadership</td><td>2. Differentiation</td></tr>
<tr><td rowspan="2">Niche</td><td colspan="2">3. Focus</td></tr>
<tr><td>3a. Focus OCL</td><td>3b. Focus Differentiation</td></tr>
</table>

Overall Cost Leadership: Businesses thrive hard to attain the least possible production and distribution costs so that it can keep price lower than its competitors and gain a considerable market share. In order to have a strategic edge over competitors, organization aims at offering its customer the best value for the product they purchase. Overall cost leadership is one such strategy. It aims at providing high quality at low cost. Organizations chasing this strategy must be good at engineering, purchasing, manufacturing, and physical distribution. According to Porter following are the pre-requisites of the strategy…

- Building efficient scale facilities;
- Cost reduction from experience;
- Stringent cost and overhead control;
- Holding off marginal customer accounts;
- Cost minimization.

The challenge with this strategy is that other organizations will typically compete with still lower costs and upset the firm that placed its complete prospect on cost and firm losing cost leadership due to fast technological changes, which require high capital investment.

<table>
<tr><td></td><td colspan="3">Strategy: Overall Cost Leadership</td></tr>
<tr><td></td><td colspan="3">Level of Impact</td></tr>
<tr><td>Element</td><td>High</td><td>Moderate</td><td>Low</td></tr>
<tr><td>Quality</td><td></td><td>✓</td><td></td></tr>
<tr><td>Quantity</td><td>✓</td><td></td><td></td></tr>
<tr><td>Quick</td><td></td><td></td><td>✓</td></tr>
<tr><td>Resources</td><td>✓</td><td></td><td></td></tr>
<tr><td>Relationships</td><td>✓</td><td></td><td></td></tr>
</table>

Organizations aiming for better utilization of resources and aiming for catering to mass market need to manufacture in high quantity. OCL strategy helps in increasing the quantity and optimum utilization of resources. However, the quality, though high is perceived to be moderate by the customers. Building high capacities also requires longer time frame, because even if the plant is setup, demand for the product usually generates over a period of time.

Differentiation: Customers have diverse needs with respect to their preferences and tastes. These diverse needs are catered by differentiated products. In differentiation strategy the business ponders on attaining notable performance in a key customer benefit zone that is valued by a large portion of the market. The firm promotes those strengths that will contribute to the proposed differentiation. Thus, the firm pursuing quality leadership, for instance, must take products with the best components, assemble them proficiently, examine them carefully, and successfully communicate their quality.

Advantage: Differentiation leads to **differential advantage**, uniqueness perceived by the target market, in which the organization can charge premium in the market, which is more than the cost of providing differentiation. The differential advantage is not restricted to premium price but extends to increase in number of units sold; increase in brand loyalty by the customers; and sustainable competitive advantage.

Disadvantages: The disadvantages of differentiation are that the uniqueness of the product may not be valued by buyers; excess amount of differentiation; and loss due to differentiation.

Thus, differentiation has to be crafted carefully by the organization. There are two types of differentiations; tangible and intangible. The tangible differentiation includes design, packaging, style, quality and composition. While intangible differentiation is through building company's image, reputation, brand and customer preferences.

	Strategy: Differentiation		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick			✓
Resources	✓		
Relationships	✓		

The cost incurred in differentiation strategy are of training, advertising, employee (highly skilled employees are needed), production as more expensive material is required for improving the quality of the product.

Differentiation strategy implies differentiated product implying quality of the product is high and the product is unique. Thus, organizations looking forward to offering quality product to customer but is prepared for the risks of differentiation, should employ the strategy.

Value Chain is a major source of differentiation. The value pursuit establishes the uniqueness of the product. The value endeavours for each differentiated product varies depending on the characteristics of the product. The steps of value activity range from procurement of raw material to the sale of product. Each differentiated product has its own value pursuits.

Focus: The business focuses on one or more narrow market segments. The firm gets to know these segments closely and engage in either cost leadership or differentiation within the target segment.

As suggested by Bolten & McManus, (1999)[xxxiii], focus strategy comprises of the selection of a market segment, or group of segments, in the industry and fulfilling the needs of that selected segment (or niche) better than the other market competitors. This is also called as a niche strategy. In focus strategy, the competitive advantage can be accomplished by optimizing strategy for the target segments.

Focus strategy has two variants. They are:

Cost Focus; and

Differentiation Focus

According to Thompson and Strickland the term 'niche' is defined as "geographic uniqueness, by specialised requirements in using the product or by special product attributes that appeal only to niche members".

The major advantages, if implemented properly, offered by focus strategy are the focuser can guard against Porters competitive forces; decreases competition from new entrants by creating a niche of its own; decreases the threat from producers producing substitute products; decreases the bargaining power of the powerful customers; focus strategy, if combined with low-cost and differentiation strategy, would increase market share and profitability.

The challenges associated with focus strategy are the market segment has to be large enough to generate profits; the segment's need may become less distinct from the main market; and the competition may take over the target-segment.

Cost focus a niche low cost strategy whereby a cost benefit is achieved in focusers' target segment. According to Porter, cost focus takes advantage of variances in cost behaviour in some segments. In this the focuser concentrates on a limited buyer segment and out-competes rivals on the basis of lower cost.

In differentiation focus, the organization offers niche buyers something different from rivals. The organization look for differentiation in its target segment. Differentiation focus benefits form the special needs of buyers in identified segments.

	Strategy: Focus		
	Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick			✓
Resources	✓		
Relationships	✓		

There are three levels at which organizations can employ strategies. Corporate level, Business level and Operational Level. Setting up the quality standards and deciding on the structure and systems of organization should be the corporate level decisions. At business level, strategist have to make decisions regarding the quality, quantity and the quickness in responding to customer needs. At the business level itself strategies to improve the quality, quantity and quickness has to be framed. Similarly, organizations need to develop structure and systems to deal with quality, quantity and quickness in responding to dynamic environment. Organizations have multiple growth strategies to choose from. Expansion, Intensification, Integration, International expansion. With multiple sub-strategies like product development, market development. While developing the operation level strategies too, the 3S + 2R equation must get due attention.

Quickness can be achieved through M&A, compared to organic growth. But the critical factor in M&A is due diligence.

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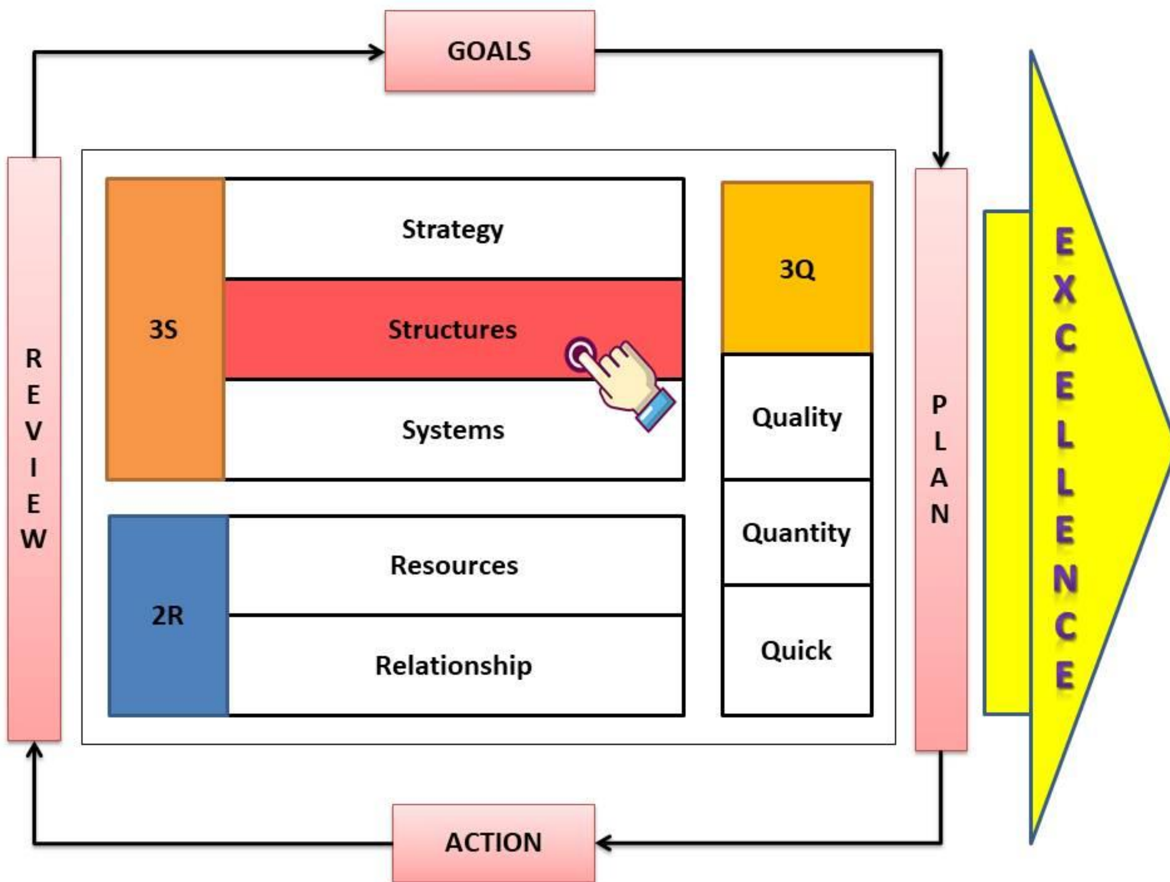

GOALS
REVIEW
3S
Strategy
Structures
Systems
2R
Resources
Relationship
3Q
Quality
Quantity
Quick
PLAN
EXCELLENCE
ACTION

Chapter VIII

Organizational Structures and the 5 Elements

Successful and efficient implementations of strategies need effective and efficient structures.

Different strategies require different structures. Organizational structure performs a prominent role on administrative front as to exactly how the companies organize, implement and control their undertakings. Organizational structures are important not only for administrative and effective execution of strategy but also for evaluation and control process. Formal organizational structure states the responsibility, line authority and accountability of the activities to be performed by the various departments in the organization and the employees.

Apart from providing a fundamental structure to enable working, organizational structure has following basic drives:

- Define the lines of authority
- Ensure that all vital activities are allocated and executed
- Creates lines of communication
- Offers for coordination and balance
- Offer insight into opportunities of advancement
- Economies on executive time

Developing an organizational structure

The process of designing an organization's structure starts with

1. Define organizational objectives in relation to what the organization desires to accomplish

    Growth/survival
    Market share
    Cost & Expenses
    Market leadership
    Customer relations

2. Define the different activities that need to be undertaken to realize these objectives

3. Define the volume and costs of each of these activities

4. Identify position to whom these activities may be allocated

5. Categorize and congregate closely interrelated activities and allocate them to the same position

6. Determine on hierarchy of activities by defining the level at which each activity will be executed

7. Define the relationship between positions

8. Define the nature of authority in respect of each position

9. Assign personnel to positions

10. Check the organization structure to make certain …

    Provision for coordination and control
    Provision for growth
    Provision for flexibility and control

Organizations have to quickly respond to shifting market trends, evolution in both products and markets as well as the competitive necessities. While planning an organizational structure an

important consideration should be for establishment of flexibility, effective coordination procedures and distinct lines of communication.

One of the strategic decision in organizational structure is related to the amount of centralization or decentralization of the number of organizational functions. In centralized systems recruitment, training compensation and evaluation are all managed from the central headquarters, while in decentralized system the managers take up most or all of these functions. The degree of centralization or decentralization in structure may depend on the size of operation, costs, effectiveness and competitive necessity.

When organizations are small with only a few employees, functioning from the corporate office may be more efficient and effective. As the size of the businesses increase, a system of branch offices gradually surfaces, to allow employees to be more responsive to local consumer needs. Decentralization of operation provides more freedom to managers permitting them to display initiative and managerial skill.

Most medium sized and large firms pool the advantages of both centralized and decentralized operations. Decentralized structures are employed to ensure better customer service while training and part of recruitment function are centralized.

Managerial viewpoint towards control and delegation is also a significant variable influencing the amount of decentralization of activities in sales organization.

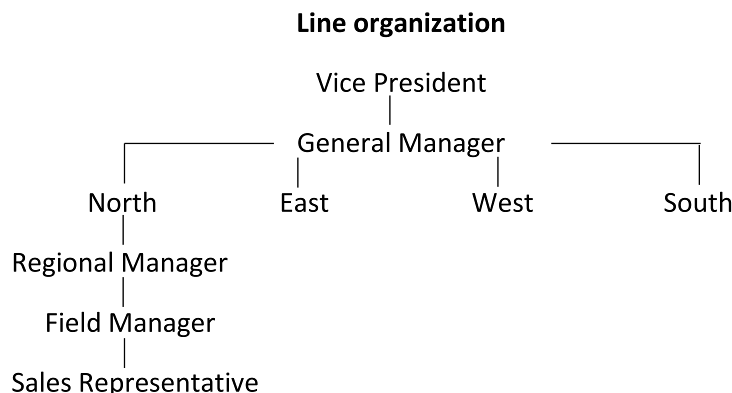
A recent development, which has affected the centralization/decentralization choice is the increased use of computers to process and handle data. As computers can process large volumes of information at lower costs and much more quickly, the trend towards computerisation has encouraged centralized decision making.

Types of organizational structure

Organizations do not have very similar structures as their needs and expectations, markets and products, company size and marketing channels vary from each other.

The line structure is one of the oldest and most fundamental forms of organization structure, portrayed by a chain of command successively from the top executive down to the level of the salesperson. All executives have line authority over their subordinates who in turn are answerable only to their immediate superior. Since lines of authority run vertically in this structure, executives at each level are generally independent of all others at the same level.

Line organization



Line organizational structure is to a large extent employed in smaller firms or those dealing in a restricted product line, or operate in a smaller geographic area.

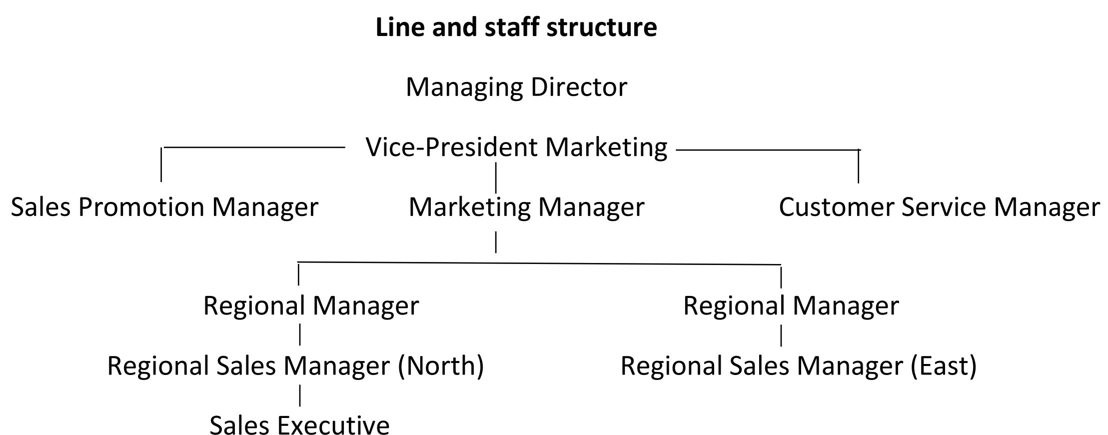
	Structure: Line		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality		✓	
Quantity		✓	
Quick	✓		
Resources	✓		
Relationships	✓		

However, line organizations become unsuitable in case of fast growing organizations or those with large staffs, as increasing departments demand additional layers of executives to be added. Increase in vertical levels is often accompanied by misrepresentation of directions and reduced efficiency of communication, resulting in poorer results.

Line and Staff

Line and staff organizations typically result as the size of the organization get bigger. It is typically found in medium and large firms with considerable staff dealing in diversified product lines. The line and staff department is distinguished by the presence of staff specialists or staff assistants to advise and assist the top executive. These specialists are experts in their own fields which could be training, service, analysis and planning, dealer relations, marketing, Finance, R & D, product development and so on. While staff executives and assistants do not have the line authority to command, they advise the line executives through recommendations and provide the benefit of specialization in the organization. The inclusion of the staff component liberates the line executive from the burden of detail. By delegating problem involving in depth study or detailed analysis to staff specialists, the line executive gets more time for policy making and planning. A consortium of experts becomes available for offering advice and assistance in specialized fields. The activity of planning can also be subdivided and assigned to staff specialists. More information is also made available for better decision marketing.

Line and staff structure



For instance, in the above structure, the customer service manager is essentially in-charge of providing information and enabling customer focus for the organization. He advises the line managers on the suitability of the various customer related activities and keeps them informed about the developments in the field. The sales promotion manager performs the advisory function with respect to the sales promotion activities of the organization and coordinates with the regional sales managers as to the promotional needs. The regional managers are the line executives who are

accountable for the operating results in their territories and control their own field staff of sales executives and salesmen.

	Structure: Line & Staff		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick		✓	
Resources	✓		
Relationships		✓	

The advantages of the line and staff organization are mainly those of specialization. The pool of experts provides advice and assistance in specialized fields. Planning activities are subdivided and apportioned to staff members, and decisions and policies rests on a sounder base than in the line organization.

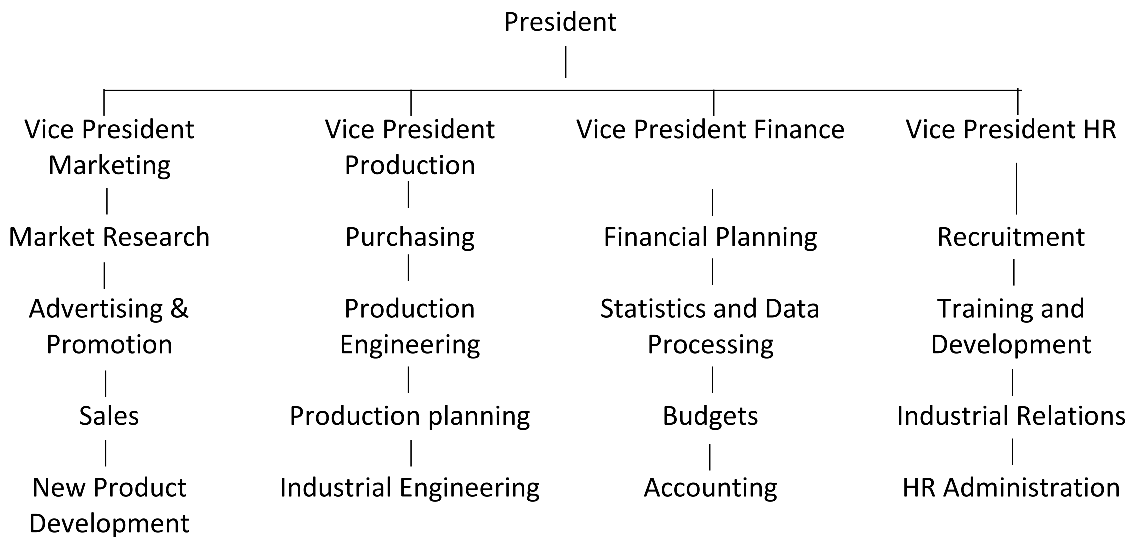
The difficulty that arises with line and staff organization is fundamentally coordination. The work of the staff specialists needs to be vigorously coordinated with the operations of the line department and usually a lag develops, as reports and recommendations take time to compile.

Line and staff organization also occasionally cause problems of interpersonal relations. The staff executives incline to go beyond their advisory authority and try to undertake and occasionally succeed in undertaking the authority to issue orders and directions. This poses difficulties of dual subordination and may lead to confusion. The fact that staff specialists do not share direct responsibility for results is also resented by some line executives. Events have shown that to a great extent these difficulties can be decreased if all areas in which line and staff executives have to share authority and responsibility are precisely written down as constituents of the job description.

The functional organisation

The functional organisation is intended at exploiting the benefits of specialization to its maximum extent. In the functional organizational structure, all personnel receive direction from, and are accountable to different executives, on different viewpoints of their work. To some extent in breaking to the principle of unity of command, the functional organizational structure gives all executives, each a specialist in his own field, a direct authority to command and issue orders to his functional authority therefore, simply means that at any given time; a sales person could be under instruction from a number of executives. The top executive has coordinating responsibilities in respect of the actions of functional heads. Functional organizational structures have not been found to be a very appropriate structure for sales organization. In larger organizations where the size of the sales force is substantial, the degree of centralization compelled by the functional organizational structure, renders the operational inefficiencies. Smaller and medium sized firms on the other hand find the system expensive because of the high degree of specialization. Another flaw of the structure is that problem of coordinating the activities of highly diverse specialists is placed on a single individual. In case that individual is not capable enough in this regard, the whole structure is likely to become cumbersome and ineffective.

Functional Organizational Structure



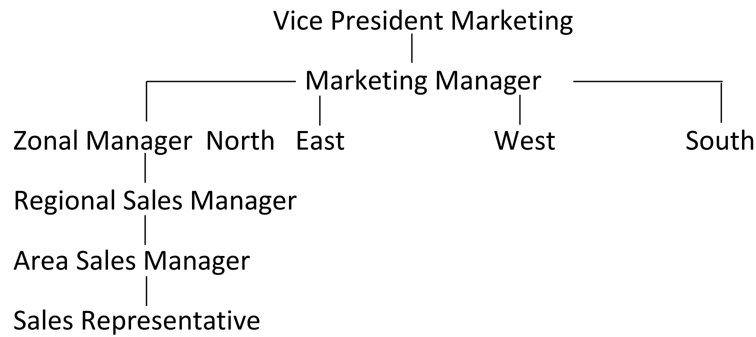
The major advantages of functional structure are that it is logical and has proved the test of time. It is also the best way of making certain that the power and prestige of the basic activities of the organization will be defended by the top managers. Since the structure follows occupational specialization it facilitates efficiency in the utilization of manpower. The main advantage of a functional organization is its administrative simplicity.

The disadvantages are, the structure tends to de-emphasize overall organizational objectives. Specialized departments often have problems seeing the business as a whole, and co-ordination among them is frequently difficult to achieve. Adapting to changing environment is difficult. There is inadequate planning for specific products and markets, since no one has full responsibility for any product or market. Products that are not favoured by anyone are neglected. Each functional group competes to gain more budget and status vis-à-vis the other functions.

	Structure: Functional		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick		✓	
Resources	✓		
Relationships		✓	

Geographic Specialization

A company selling in a national market often organizes its sales force along geographical lines. The extremely usual form of organizing a structure is geographical. The country or region is divided into four (or more depending upon the size of the region) geographical areas and put in charge of zonal managers. These areas representing North, East, West and South. These major zones are further divided into smaller geographical territories which are covered by Regional Sales Managers followed by Areas Sales Managers and Sales Representatives.



The structure places responsibility at a lower level of the organization as well. The foremost benefit of geographic structure is that the personnel usually have a smaller area of operation than in the other organization structure and over a period of time get to know their customers and markets personally which can lead to intensive market development. Structure places emphasis on the local markets and problems. Organizations turn out to be quicker to respond to local needs. The geographic organization is usually a flat rather than tall organization and the diminutive lines of communication make for superior effectiveness of direction and control. Another advantage that come along is that travel time and expenses can be cut down. Geographic organization is normally more effective when the product line is not widespread or consists of relatively simple, non-technical products. The structure also furnishes measurable training ground for general managers.

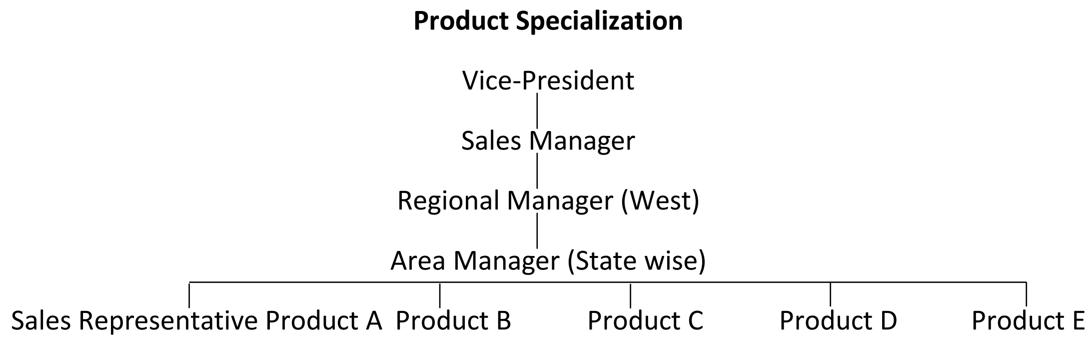
The disadvantage with geographic specialization is that it requires more persons with general manager's abilities. The sales persons need to be responsible for the entire product line in their territory and they may not be equally knowledgeable about all products.

	Structure: Geographic		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality		✓	
Quantity	✓		
Quick	✓		
Resources		✓	
Relationships	✓		

Product specialization

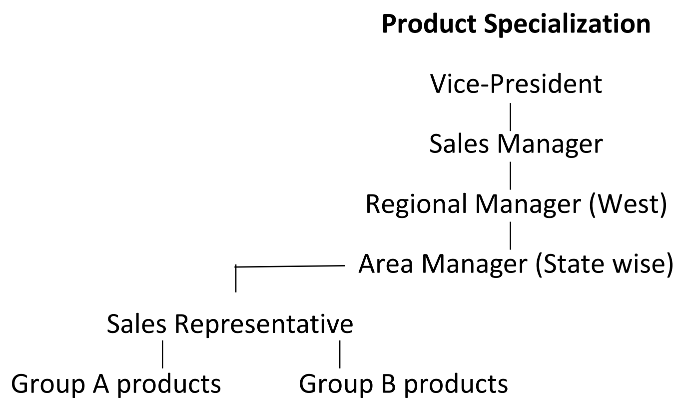
The product specialization is usually employed when the product line is large and varied or when the products are technical enough to warrant specialized applications knowledge, or when adequate technical knowledge is an important element of successful selling. Product specialization is usually blended with geographic territorization at the higher levels, while at the level of the field operators, different salesmen may be designated to specific product lines. Instead of selling entire product line in a specific territory, a salesperson assigned to a particular product/product group, will sell only that product to the customers in that area.

Product Specialization



The structure places attention and efforts on product line. Product specialization lets the sales personnel to specialize in their corresponding product lines which in turn would result in more result oriented performance. Permits growth and diversity of products and services. Customer objections and sales resistance can be handled more effectively on account of intensive product knowledge. Improves coordination of functional activities. In certain cases, even if the product line is not quite technical but the product range is widespread, organizations find dividing the sales assignment product wise for more effective coverage. The company divides its product line into two or more major product groups for effective promotion. Even if two or more salesmen are assigned to the same territory, each will be responsible for only the product group assigned to him.

Product Specialization



Product specialization structure creates additional expenses which should be sensibly evaluated against the benefits of such a structure. There is an understandable escalation in travel and administrative expenses. There is some duplication of work also as two salesmen from the company selling different products in the same territory may call on the same customer to which many customers may complain.

On the other hand, each salesman in the organization would have to travel the entire state, which would result in higher travel time and expenses.

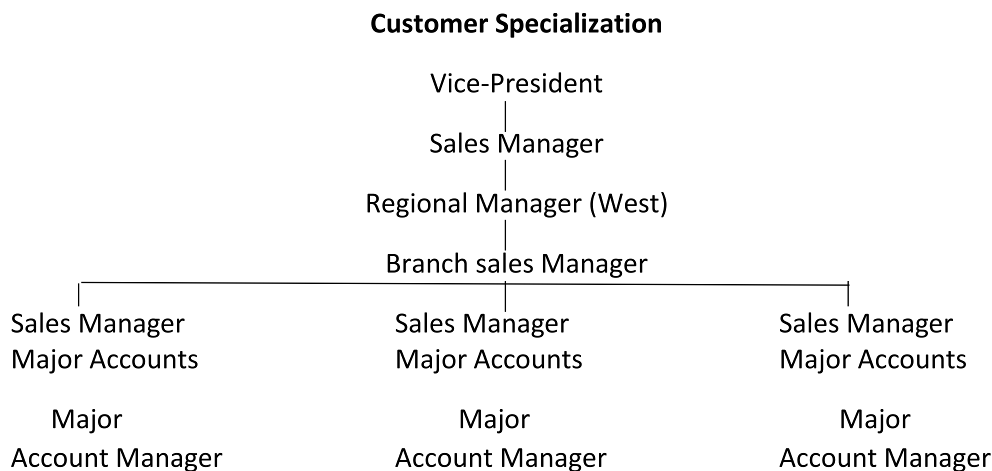
	Structure: Product		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick	✓		
Resources		✓	
Relationships		✓	

Customer specialization

Customer specialization is employed in situations when almost identical products are marketed to consumers each of which may exhibit a diverse set of selling problems. In this kind of organizational structure each sales person sells the entire product line to the selected buyers.

Customer specialization empowers the sales persons to become additionally knowledgeable about the unique problems and needs of each cluster of customers. A customer oriented structure is in harmony with the marketing concept with its higher prominence on consumer satisfaction. The greater market specialization developed as a result of constantly working with the same set of consumers imparts a degree of professionalism to the sales task and has been found to result in lower turnover of sales personnel.

The main weakness of this form of specialization is that geographical territories may characteristically overlap. There may be a large number of the company's representatives covering the same geographical area, but serving different customers, often resulting in higher costs.



Customer specialization encourages concentration on customer needs, feelings and develops expertness in customer area.

The disadvantages are it may be difficult to coordinate operations between competing customer demands, requires managers and staff expert in customer's problems and customer groups may not always be clearly defined.

Geographic, product and customer specialization present the basic approaches to organization structure. Quite a high proportion of organizations use a combination of these basic types. In order to achieve a sales organization that most efficiently serves the need of their target customers.

	Structure: Customer		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick	✓		
Resources		✓	
Relationships	✓		

A matrix or grid structure

A matrix or grid structure normally is the combining of two basic structures. For instance, combination of geographic and product, or functional and product or geographic and functional etc.

The reasons for the existence of a matrix organization is a single structure may not be feasible. Highly trained professionals generally prefer to be allied organizationally with their professional group than being allied with a geography. The functional competencies of these professionals can be leveraged across product categories and geographies.

Matrix Structure

	VP Production	**VP Marketing**	**VP Finance**
Group Product Manager A			
Group Product Manager B			
Group Product Manager C			
Group Product Manager D			

A production manager may look after the production schedule of all the products with a line structure under him. As organizations, Like FMCG, cannot have multiple production units at all the geographical location it serves. Similarly, a uniform promotional strategy for national brands can be developed for the product lines and categories the organization has. A specialist in product promotion can look after all the promotional strategies for the various product lines.

Organization can make effective use of the matrix structure by following certain principles. Stewart, Knight, Galbraith, Hoffmann[i] gave guidelines for making Matrix Management effective…

Define the objectives of the project or task.

- Clarify the roles, authority, and responsibilities of managers and team members.
- Ensure that influence is based on knowledge and information, rather than rank.
- Balance the power of functional and project managers.
- Select an experienced manager for the project who can provide leadership.
- Undertake organization and team development.
- Install appropriate cost, time, and quality controls that report deviations from standards in a timely manner.
- Reward project managers and team members fairly.

	Structure: Matrix		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick	✓		
Resources	✓		
Relationships		✓	

Depending upon the need of the organization a structure should be developed. There is no mandate that once the structure is developed it should not be changed. Nevertheless, the structure should not be changed very frequently. Yet, depending upon the size of the organization, and organizational objectives, the structure should be finalized.

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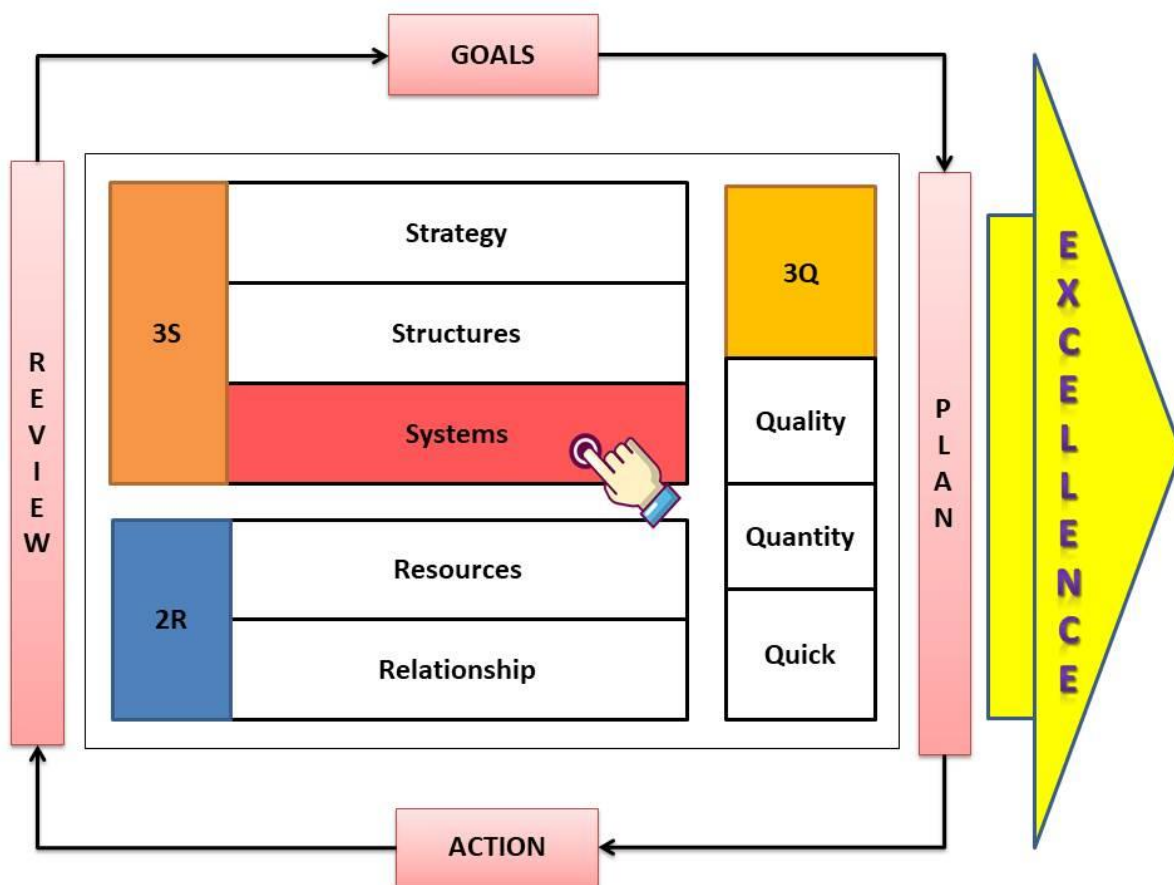
[i] Stewart, in Management (1968); Knight, in Management (1980); Jay Galbraith, Designing Complex Organizations (Reading, Mass: Addison-Wesley Publishing Company, 1973), chap. 5. William H. Hoffmann, "Strategy Matrix," Managerial Planning (May-June 1985), pp 4-9, 75

Discussions in this chapter are based on the work of Philip Kotler in the book Marketing Management Analysis, Planning, Implementation, and Control, published by Prentice HallIndia; Richard R. Still, Edward W. Cundiff, Norman AP. Govoni in Sales Management Decisions, Strategies and Cases, Prentice Hall India, and Heinz Weihrich, Harold Koontz in the book Management Global Perspective published by McGraw-Hill


GOALS
REVIEW
3S
Strategy
Structures
Systems
2R
Resources
Relationship
3Q
Quality
Quantity
Quick
PLAN
ACTION
EXCELLENCE

Chapter IX

Organizational Systems and the 5 Elements

Quality is no more a production function but a strategic function, which needs to be achieved systematically.

Having crafted a strategy and developed a structure, the organization needs to look at the systems. To define, "system is a set of detailed methods, procedures and routines created to carry out a specific activity, perform a duty, or solve a problem."[i]

System concepts have broad applicability. Systems have boundaries, but they also interact with the external environment i.e., organizations are open systems. They recognize importance of studying interrelatedness of planning, organizing, and controlling in an organization as well as the many subsystems.[ii]

Thus a system is an ordered, purposeful structure that comprises of unified and mutually dependent groups. These groups persistently impact one another, directly or indirectly, to keep up their activity and the subsistence of the system, in order to achieve the objective of the system.

Management Information Systems

To carry out managerial functions communication is needed to link the organization with its external environment. The management information system offers the communication link that makes managing feasible.

The term information management system has been used differently by various authors. It is defined by Weihrich & Koontz[iii] as, "a formal system of gathering, integrating, comparing, analysing, and dispersing information internal and external to the enterprise in a timely, effective, and efficient manner.

The management information system has to be customised to explicit needs and may include regular information, such as monthly reports; information that highlights exceptions, especially at decisive points; and information essential to forecast the future. The procedures for devising a management information system are similar to those for designing systems and procedures and other control systems.

The electronic equipment facilitates fast and economical handling of huge amounts of data. The computer can, with proper programming, process data toward logical conclusions, classify them, and make them readily available for a manager's use. The data do not become information until they are processed into a usable form that informs.

The systems have

Inputs, outputs and feedback mechanisms,

Maintain an internal steady-state despite a changing external environment,

Display properties that are different than the whole but are not possessed by any of the individual elements, and

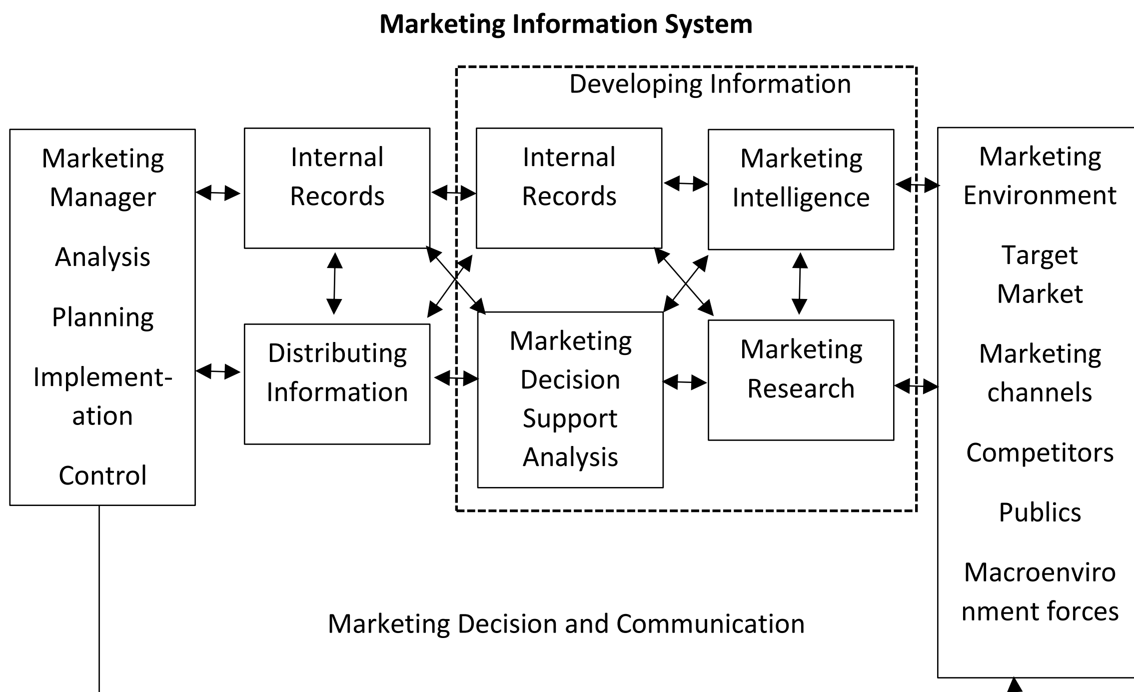
Have boundaries that are usually defined by the system observer.

According to Philip Kotler[iv], every organization must organize the flow of marketing information to its marketing managers. He defined MIS as, "A marketing information system (MIS) consists of people, equipment, and procedures to gather, sort, analyse, evaluate, and distribute needed, timely and accurate information to marketing decision makers".

Marketing Managers need information while analysing, planning, implementation and controlling. After assessing the information needs the information systems is developed. The information in

marketing information system is developed through internal records, marketing intelligence, marketing decision support analysis and marketing research. The information is then distributed to decision makers for deciding on the marketing environment with respect to target markets, marketing channels, competitors, publics and macro environment forces. Following figure depicts the marketing information system.

Marketing Information System



Source: Marketing Management, Analysis, Planning, Implementation, and Control

Decision making system

One of the key managerial function is decision making. Decisions cannot usually be made in a closed system environment. While planning many components are in the background and remain outside the organization. Moreover, each unit or department of an organization is subsystem of the whole organization; managers of these organizational units must be receptive to the policies and programs of other organizational units and of the total organization. Individuals within the organization are a part of the social system, thus it is important to consider their thinking and attitudes every time a manager makes a decision. While taking into account various components of the environment and their problems does not imply that the managers relinquish or step down their role as decision maker. Someone must decide on a sequence of action from among alternatives, taking into account happenings and constrains in the environment of a decision. Often it is not possible, or worthwhile, to democratize the decision process to the degree that for all decisions a vote is taken from subordinates or the many other persons who may have some immediate or remote interest in the decision. The decision has to be made.

In order to simplify and have consistency in the decision making organization can develop policies, rules and procedures.

Policies are general statements or understandings that guide thinking in decision making; the essence of policies is the existence of discretion, within certain limits, in guiding decision making.[v]

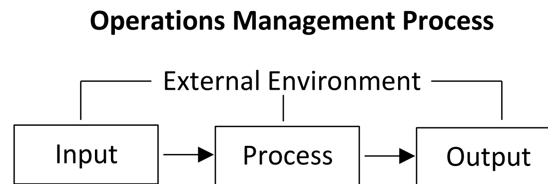
Procedures are plans that establish a required method of handling future activities. They are chronological sequences of required actions. They are guides to action rather than to thinking, and they detail the exact manner in which certain activities must be accomplished.

Rules are required action or non-action, allowing no discretion.

Operations Management

Operations management has to be seen as a system. The quality of the output is determined by the resources and information available to the organization.

Operations Management Process



To be an effective system, the subsystems need to be developed for all the three.

Inputs systems

The quality of input depends on the information available with the company about the need of customers, human resource in terms of management and labour skills. Assets like land, plant location, buildings, machines and warehouses, these are relatively permanent physical assets whereas the variable physical factors are materials and supplies.

Process system

Process as a system has components like planning, operating system, coordinating. The quality of output is determined by planning, operating system, tools and techniques used during the operating system and finally the controlling system during transformation process (from input to output).[vi] Planning includes the design and decisions regarding the product / service, the output. Controlling includes information for control and the quality control. The tools and techniques in quality control comprise of operations research, linear programming, inventory planning and control, distribution logistics, decision trees, time-event networks, value engineering, work simplification quality circles CAD/CAP and MAP.

Organizing and staffing lead to the operating system. The system includes, developing the organizational structure, job design, staffing the organization, selection, appraisal, training, providing leader ship, purchasing and inventory.

Jeffrey K. Liker (2004) in his book The Toyota Way, described 14 principles which are the foundations of the Toyota Production System practiced at Toyota manufacturing plants around the world. The principles are further divided into four categories, all starting with P – Philosophy, Process, People/Partners, and Problem Solving.[vii]

The Philosophy is long-term thinking. The principle that governs the philosophy is, all the management decisions are based on a long-term philosophy, even at the expense of short-term financial goals.

The heart of the Toyota production system is at eliminating waste, the process. The principles that govern the process are: create process flow to surface problems, use pull systems to avoid overproduction, level out the workload, stop when there is quality problem, standardize tasks for continuous improvement, use visual control so no problems are hidden and use only reliable

thoroughly tested technology. The process uses two methods Heijunka and Jidoka implying level out the workload and stop when there is a quality problem respectively.

There are “5 S programs” that comprise a series of activities for elimination of wastes that contribute to errors, defects and injuries in the workplace. The 5 S are…

1. *Seiri* (Sort): Sort through items and keep only what is needed while disposing of what is not.

2. *Seiton* (Straighten, Orderliness): A place for everything and everything is in order.

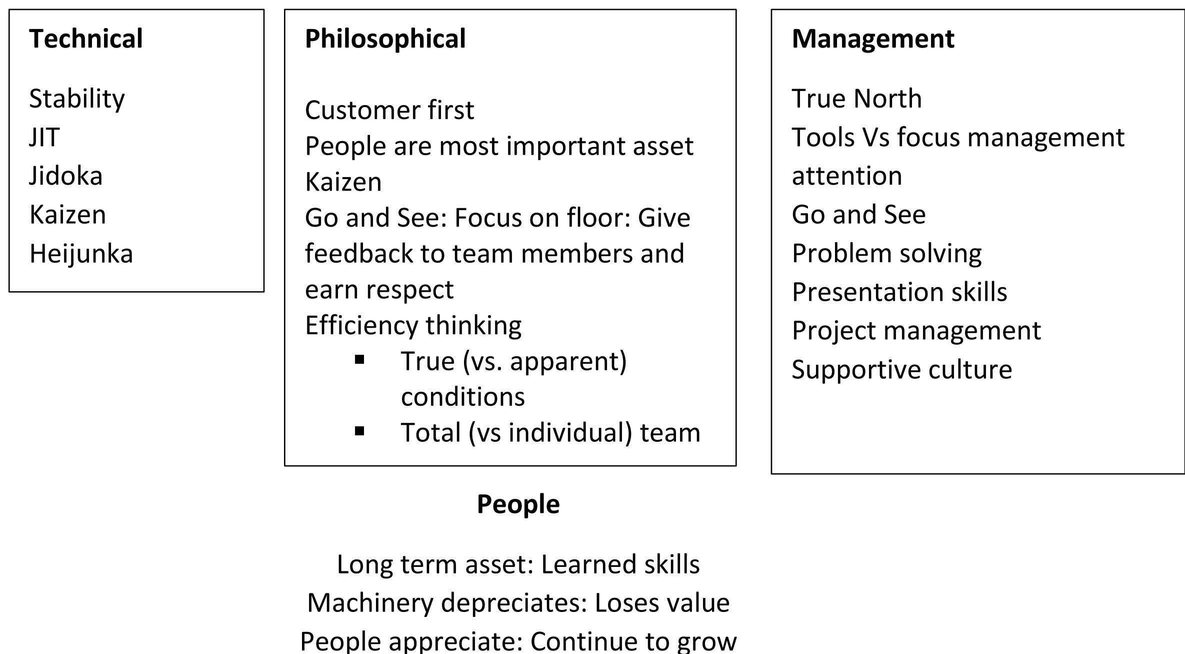
3. *Seiso* (Shine, Cleanliness): The cleaning process often acts as a form of inspection that exposes abnormal and pre-failure conditions that could hurt quality or cause machine failure.

4. *Seiketsu* (Standardize, create rules): Develop systems and procedures to maintain and monitor the first three S’s

5. *Shitsuke* (Sustain, Self-discipline): Maintaining a stabilized workplace is an ongoing process of continuous improvement.

Gary Convis, President of Toyota Motors Manufacturing in Kentucky in 1999 talked about the philosophy of Toyota Production System and importance of culture.[viii] He saw TPS as a three-pronged beast, where only one prong included the technical tools often associated with lean production - JIT, Jidoka, Heijunka etc. according to Convis, these are just technical tools and they can be effective only with the right management and the right philosophy – the basic way of thinking. At the centre of TPS is people.

Gary Convis’s view of TPS



Technical

Just in Time (JIT)

Just in Time (JIT) is a set of principles, tools, and techniques that allows a company to produce and deliver products in small quantities, with short lead times, to meet specific customer needs. JIT permits organization to be quick to respond to the day-by-day swings in customer demand. W. Edwards Deming, an American quality pioneer broadened the definition of “customer” to include

both internal and external customers. Each person or step in a production line or business process was to be treated as a customer and to be delivered with precisely what was needed, at the precise time when needed. JIT's supreme significant expression is *the preceding process must always do what the subsequent process says.* Otherwise JIT won't work.

Jidoka

Jidoka refers to the principle of stopping the process to build in quality. The second pillar of TPS, Jidoka, quality should be built in, this means that you need a process to identify defects when they arise and automatically halt production so an employee can fix the problem before the defect carry on downstream. Jidoka is also referred to as autonomation – equipment bestowed with human intelligence to stop itself when it has a problem. In-station quality, preventing problems from being passed down the line, is more valuable and less costly than scrutinizing and repairing quality problems after the fact. It is fine to operate the plant less than 100% of the time, even when the line is capable of running full-time. Because resolving quality problems at the starting place saves time and money downstream. By constantly surfacing problems and resolving them as they occur, organization eliminates waste, productivity soars, and competitors who are running assembly lines flat-out and letting problems accumulate get left in the dust.

Kaizen

Kaizen is the Japanese expression for unceasing improvement, and is the process of making incremental improvements, no matter how small, and accomplishing the lean goal of eliminating all waste that adds cost devoid of adding to value. Kaizen imparts individual skills for working effectively in small groups, solving problems, documenting and improving processes, collecting and analysing data, and self-managing within a peer group. It thrusts the decision making, or proposal making, down to the workers and requires open discussion and a group unanimity before implement any decisions. Kaizen is an over-all philosophy that make every effort for perfection and sustains TPS on a daily basis. The central part of kaizen is Toyota's illustrious five-why analysis. Five Whys is a system to track the subterranean, systematic sources of a problem to find correspondingly deeper countermeasures.

5-Why investigation questions

	Level of Problem	Corresponding Level of Countermeasure
	There is a puddle of oil on the shop floor	Clean up the oil
Why?	Because the machine is leaking oil	Fix the machine
Why?	Because the gasket has deteriorated	Replace the gasket
Why?	Because we bought gaskets made of inferior material	Change gasket specifications
Why?	Because we got a good deal (price) on those gaskets	Change purchasing policies
Why?	Because the purchasing agents gets evaluated on short-term cost savings	Change the evaluation policy for purchasing agents

Source: Peter R. Scholtes, The Leader's Handbook, McGraw-Hill, 1998

Heijunka

Heijunka refers to levelling of production by both volume and product mix. It does not make products conferring to the tangible flow of customer orders, which can fluctuate up and down significantly, but takes the aggregate volume of orders in a time and levels them out so the equivalent quantity and assortment are being made each day. The method of TPS from the beginning was to keep batch sizes lesser and make what the customer (internal or external) wants. Benefits of levelling the schedule…

1. Flexibility to make what the customer wants when they want it. Decreases inventory and its accompanying problems.

2. Reduced risk of unsold goods. The organization makes only what the customer orders, it doesn't have to worry about managing the costs of ownership and hoarding inventory.

3. Balanced use of labour and machines. The organization can establish standardized work and level out production by addressing to the fact that some products will involve less work and others will involve more work. As long as the product which is time consuming is not followed by another time consuming product, the workers can manage it. Once the organization takes this into account and keeps the schedule level, it can have a well-adjusted and controllable workload over the day.

4. Smoothed demand on upstream processes and organization's suppliers. If the organization uses a just-in-time system for upstream procedures and the suppliers deliver multiple times in a day, the suppliers will get a stable and level set of orders. This will allow them to reduce inventory and then pass some savings on to the customer so that everyone gets the benefits of levelling.

To get all of the above benefits organization has to find out a method to eliminate the setup time for changeover. In a batch-processing method, the goal is to achieve economies of scale for each individual piece of equipment. Changing over tools to alternate between manufacturing two different products seems wasteful because parts are not being produced during the changeover time. The way out is to bring in a small amount of all the parts on flow racks to the operator on the line. This eliminates the equipment changeover.

Levelling the schedule has intense benefits all through the value stream, including giving organization the ability to plan every detail of production methodically and standardizing work practices.

Partners and Suppliers

While discussing the integration strategies we discussed about the forward and backward integration. Forward meaning going closer to the customer, opening up dealership or acquiring dealers. Whereas, backward integration referred to going closer to raw material, either by starting a unit to manufacture products which were by far purchased from supplier or acquiring supplier.

We also discussed about the limitation of the strategy that you cannot run two business at the margin of one. The strategy may reduce dependency but may not always be very profitable. The alternative strategy is to have a system of helping and improving partners and suppliers.

When the organization is developing the systems like JIT, Jidoka, Kaizen and Heijunka; it should also look at extending these to its partners and suppliers. Developing, helping partners and suppliers develop systems that the company is employing, the benefits are manifold. The first and the most

important benefit is it streamlines company's systems as well. For instance, without a reliable and dependable supplier JIT won't work. Thus developing the partners and suppliers helps organization implement its chosen strategy more effectively and efficiently. The other major advantage is that the resources are employed by the partners and suppliers. It minimizes the investments. The investment is in sharing the systems and developing the network of suppliers and partners.

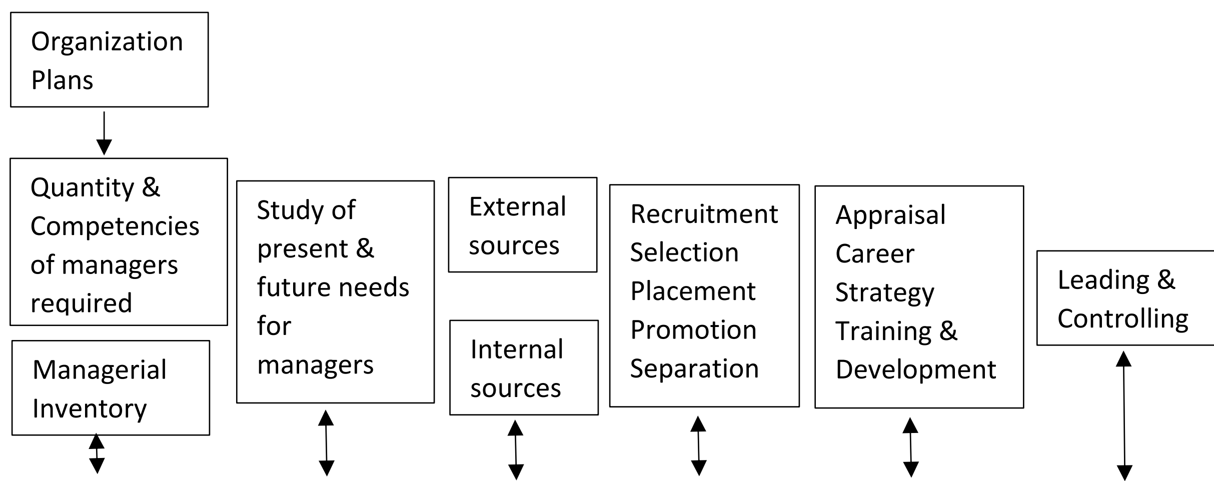
The system also helps improve relationship with partners and suppliers and is reciprocated as the preferred customer by them.

Toyota's view is that, just as it challenges its own people to improve, it needs to challenge its suppliers. Supplier development includes a series of aggressive targets and challenges to meet those stretch targets. Suppliers want to work for Toyota because they know they will get better and develop respect among their peers and other customers.

To quote Taiichi Ohno, "Achievement of business performance by the parent company through bullying suppliers is totally alien to the spirit of the Toyota Production System."[ix]

Systems approach to Human Resource Management

Fundamentally human resource management as a function refers to filling, and keeping filled, positions in the organization structure. This is ensured by ascertaining work-force requirements, inventorying the people existing, and recruiting, selecting, placing, promoting, appraising, planning the careers of, compensating and training or otherwise developing both candidates and current jobholders so that they can achieve their tasks effectively and efficiently. Human resource management must be closely linked to organizing, that is, to the setting up of purposeful structures of roles and positions.



Based on the Systems Approach to Staffing by Heinz Weihrich & Harold Koontz, Management A Global Perspective

Systems approach to selection

The systems approach to selection takes into account the managerial competencies for achieving the organization's plan with respect to objectives, forecast, plans, and strategies. For the implementation purpose the plan is turned into position and job design requisites which are matched with such individual attributes as knowledge, skills, attitudes, intelligence, and experience. To meet the organizational prerequisites, managers recruit, select, place and promote people. This warrants the environmental analysis, internal as well as external. The process is as follows….

Ascertaining the job requisites

Scope of the job

Job challenges

Managerial competencies required by job design

Job Design

Design of jobs for individual and work teams

	Systems		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick	✓		
Resources	✓		
Relationships	✓		

All the systems in the organization help them to improve the quality of the output. Systems ensure quickness by eliminating waste, unnecessary activities and ensuring time targets. Though they have a positive impact on the quantity the impact is moderate. However, systems ensure effective and efficient utilization of resources and also improves relationships in case of certain systems. Systems thus are very important in an organization for improving quality of output, responding quickly to the customer needs and resource utilization. Systems also help organization in improving relationship with partners and suppliers. As a cumulative effect, systems results in price competitiveness which organizations can use to its benefits, either by passing on benefit to customers and thus increasing quantity sold, or improve retained earnings.

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[i] http://www.businessdictionary.com/definition/system.html

[ii] Weihrich, Heinz; Koontz, Harold (1993) Management A Global Perspective, Tenth Edition, McGraw Hill

[iii] Ibid pp 618

[iv] Kotler, Philip (1992) Marketing Management, Analysis, Planning, Implementation, and Control, Seventh Edition, Prentice-Hall of India Private Limited.

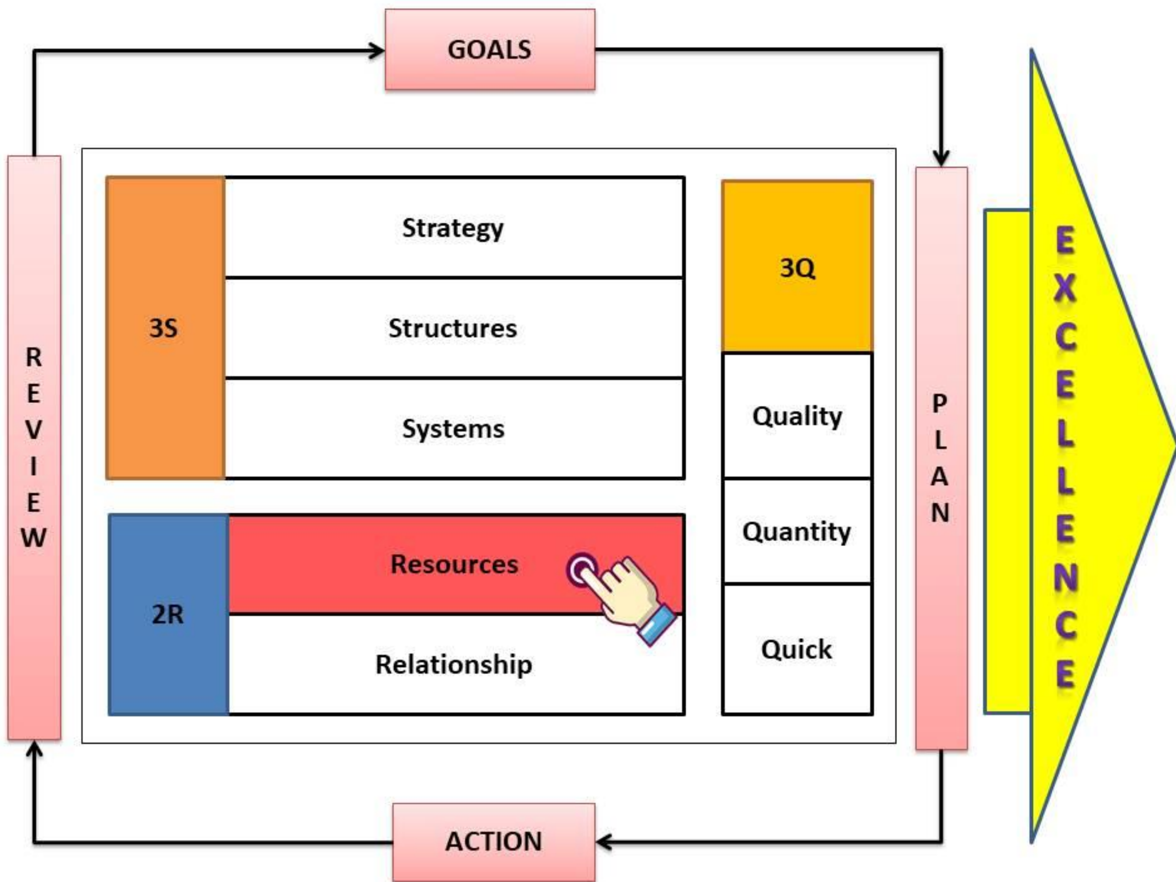
[v] Weihrich, Heinz; Koontz, Harold (1993) Management A Global Perspective, Tenth Edition, McGraw Hill

[vi] Based on the Operations Management System discussed by Weihrich, Heinz; Koontz, Harold (1993) Management A Global Perspective, Tenth Edition, McGraw Hill

[vii] Liker Jeffrey K. (2004) The Toyota Way, 14 Management Principles from the World's Greatest Manufacturer, Tata McGraw-Hill Publishing Company Limited, New Delhi

[viii] Ibid pp 175-76

[ix] Ibid pp 202-3


GOALS
REVIEW
3S
Strategy
Structures
Systems
2R
Resources
Relationship
3Q
Quality
Quantity
Quick
PLAN
EXCELLENCE
ACTION

Chapter X

Resources

A great strategy, precise organizational structure and perfect systems, does not automatically get translated into organizational strength, what determines the organization's strengths are the resources. In a highly competitive markets, even the resources are not unidimensional. There are multiple resources an organization needs to build.

Organizations do not operate in isolation. While company has its internal environment in terms of value system referring to choice of business, vision, mission, objectives, business policies and practices, management structure and nature, Internal power relationship, human resources, company image and brand equity, infrastructure, R&D, marketing resources, financial factors etc., the relevance of these factor depend on the external environment. Every organization is exposed to external environment.

The two types of external environments a firm is exposed to are Micro and Macro. Micro factors represent company's immediate environment that affect the performance of company. Micro factors comprise of suppliers, marketing intermediaries, competitors, customers and publics. Company needs to manage its internal environment by staying relevant.

Company's choice of business, R&D must look at satisfying new needs of the customers, dependable suppliers and market intermediaries, must address to emerging competition.

The Macro environment of the firm comprises of Economic, Political, Regulatory, Socio/cultural, Demographic, Technological, Natural, and Global environment. On one hand, the company addresses to internal environment, it must address the external environment simultaneously.

Some of the challenges that the firm faces while addressing the external environment are integrated global economies and regulatory factors, shifting socio-cultural factors, changing demographics, advancing technologies and global environmental issues.

When SWOC analysis of the firm is done, we realize that the Strengths and Weakness come from the internal environment. Firms ability to address the challenges from the external environment represents the strength while its inability to address the external environment is the weakness. The Opportunities as well as Challenges come from the external environment.

Michael E. Porter in 1980 developed Five Forces model. The framework is generally used for the analysis of industry and development of business strategy. It is mainly based on the premise that a corporate strategy should meet the opportunities and threats in the organization's outer environment. Porter identified five competitive forces that, according to him, shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. According to this model, the objective of corporate strategy should be to manage these competitive forces in a way that improves the position of the organization. Porter described these five forces as:

- The rivalry among firms in the industry
- The threat of new entrants
- The availability of substitute products
- The bargaining power of suppliers
- The bargaining power of buyers[i]

If the firm has strengths it can leverage the opportunities presented by the external environment. However, if the firm has limitations then it has to face the challenges presented by the external environment! The challenges a firm face are from multiple factors, micro as well as macro.

Firm must develop strategies to overcome weaknesses and challenges and leverage strengths and opportunities. Primarily firm has to develop strengths. A strength is something firm can depend on for future. An opportunity is what opens up for the firm. Weakness is one that when removed improves firms position, and the challenge is negatives the firm will face in future.

Since the Strength and Weaknesses are internal environment of the firm, firm should concentrate on developing a relevant internal environment.

Resource Based View (RBV) starts with the assumption that the desired outcome of managerial effort within the firm is a sustainable competitive advantage (SCA). Achieving a SCA allows the firm to earn economic rents or above average returns. In turn, this focuses attention on how firms achieve and sustain advantages. The resource based view contends that the answer to this question lies in the possession of certain key resources, that is, resources that have characteristics such as value, barriers to duplication and appropriability. A sustainable competitive advantage can be obtained if the firm effectively deploys these resources in its product-markets. Therefore, the RBV emphasizes strategic choice, charging the firm's management with the important tasks of identifying, developing and deploying key resources to maximize returns[ii].

The resource based approach suggests that firms should position themselves strategically based on their valuable, rare, inimitable and non-substitutable resources and capabilities rather than the products and services derived from those resources and capabilities. In RBV, resources and capabilities are considered as a root, from which the firm derives various products for various markets. Thus, in resource based view, strategy is focused on leveraging resources and capabilities across many markets and products instead of targeting specific products for precise markets. Hence, we can say that RBV is an inward looking or Inside-Outside model[iii].

Internal Analysis

Organizations do not operate in a stable environment. Macro as well as micro environment affect every organization. As discussed earlier, organization's strengths and weaknesses are internal environment, and the external environment provides opportunities as well as threats. With internal strengths organizations attempt to overcome the weaknesses as well as challenges.

While formulating strategies, organization must address on two fronts, on first front overcome weakness and challenges and on second front leverage strengths and opportunities. Analysing organizations competencies, resources, the internal environment, helps in developing strategies to deal with external conditions.

Competencies	**New**	**Premier plus ten:** Build new core competencies to protect and extend current market position	**Mega opportunities:** Building new core competencies to create and compete in markets of the future
	Existing	**Fill in the blanks:** Leverage core competencies to improve current market position	White spaces: Redeploying and recombining core competencies to compete in market of the future
		Existing	**New**
		Market	

Source: Core Competence Model, developed by Gary Hamel and C. K. Prahalad

However, in order to formulate successful strategies to make the most of the opportunities or control the challenges, exploration of the organisation's capabilities is vital for strategy development which targets at fabricating a good fit between a company's resource capability and its external environment. Internal analysis helps company understand the firm's capability which influence the development of fruitful strategies.

Changing environment demands formulating strategies to better fit the environment by developing organizational capabilities. In order to stretch and exploit firm's capabilities for creating opportunities, it is imperative to understand what the firm's present capabilities are and what will be needed in future. The above two perspectives together are referred to as the Resource Based View (RBV) of strategy.

Firms gain competitive advantage over competitors more by virtue of its strengths, internal capabilities and process execution than environmental factors.

Types of Resources

Resource based view of the firm identifies three types of resources – assets, capabilities and competencies. RBV suggest that the organizations are collections of tangible and intangible assets combined with capabilities to use those assets. These help organizations develop understanding these three types of resources and help us to know how a firm's internal strength and weaknesses affect its ability to compete.

Traditionally, resources of the firm are money, material, machine and manpower. With increasing interdependencies among the firms even relationships are a big resource.

Assets refer to the factors of production used by firms in providing its customers with valuable goods and services. These assets can be classified as - tangible assets and intangible assets. The tangible assets are physical means a firm uses to provide value to its customers, for instance firm's property and equipment, patents, R & D, Distribution network, IT network system are firm's tangible assets. Whereas, intangible assets are equally valuable for firms but their physical presence cannot be felt or seen. For example, a brand name, knowledgeable workforce, robust organization structure, organizational culture is very important resource for any organization even though it is intangible.

Capabilities

In order to leverage its assets, the organization needs to develop skills, since with similar assets two different firms may add value of different amount for themselves. This difference can only be explained by the differences these organizations carry their capabilities in utilizing the assets. For instance, in a sector like training, in a typical segment one may find institutions more or less with similar resources and infrastructure, however, the quality of their output in terms of transferring skills to participants may be starkly different for different institutions. This is greatly reflected in the type of service organizations that pick them up for employment and the kind of job responsibilities they are offered.

This difference in output can be explained on account of the skills which the institutions carry with themselves. Thus the resources and information plays a major role in determining the quality of output.

Input → Process → Output

Most organization will have same input, however, the process determines the quality of output. Thus the company should develop manpower for better results. The other resources being money,

material and machine which are hard factors and easy to copy. This does not mean that there should be no attention to money, material and machine. As will be discussed later for quality output attention has to be payed to money, material and machine as well.

It is also imperative to develop good relationship with suppliers, employees and customers which in turn give feedback needed for improving the output.

In order to improve the capabilities organization has to invest in resources like, properties and equipment, employees and their training to improve skills. Higher capabilities also improve resource utilization of the organization.

	Resource: Capability		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick	✓		
Resources		✓	
Relationships	✓		

Competencies

Competency is the ability to perform. An organizations decisive bunch of skills that differentiate itself form competitors are referred to as 'Distinctive Competencies.' The distinctive competencies come from the resources, which are available to an organization and how they differentiate themselves as competencies or core competencies.

1) Available Resources: The resources that are essential to the capability of any organization are as follows:

Physical Resources: The fixed assets, may include buildings, machinery or functioning capacity. However, the specific condition and capability of each resource determines their usefulness.

Human Resources: Human resources are considered as 'the most valuable asset' of an organization. Knowledge about the market as well as customers and skill of people together prove to be a great asset, business strength.

Financial Resources of an organization may include capital, cash, debtors and creditors and suppliers of money.

Intellectual capital: Include the knowledge that has been converted into patents, brands, business systems and relationships with associates. In today's knowledge economy intellectual capital is considered as a major asset of many organizations, intellectual properties.

	Same as Competitors or Easy to imitate	Better than Competitors or Difficult to imitate
Resources	Threshold Resources	Unique Resources
Competencies	Threshold Competencies	Core competencies

2. Threshold Resources

Threshold resources are those which are easy to imitate as there are no barriers to followership, either because of lack of patentability or entry barriers. Threshold resources are needed to perform in all markets and also to stay in business. Competitors or even new entrants force a company to look for threshold resources. We have seen large number of companies across sectors acquiring threshold resources with the entry of foreign players post liberalization.

3 Unique Resources

Unique resources reinforce organizations competitive advantage. They are difficult to imitate and add more value to product than the competitors. Many a times, scale of operations offer unique resource, as competitors find it difficult to match. In many cases a patent makes it difficult for the competitors to follow innovator, even if the innovation is easy to copy.

4 Core Competencies

Competencies refer to the ability to perform. The variance in performance between organisations in the same market is seldom understood by variances in their resource base, since resources can usually be imitated or traded.

Notable performance is essentially established by the way in which resources are used to create competences in the organisation's undertakings. An organization needs to accomplish a threshold level of competence in all of the actions and practices.

Core competency is defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace[iv]" and therefore are the foundation of companies' competitiveness. A core competency results from a specific set of skills or production techniques that deliver additional value to the customer. They form and withstand ability to meet the critical success factors of particular customer groups better than other provides ways that are difficult to imitate. Again, as put forward by the Resource Based View, a series of guidelines are discussed below, which you can use to assess what constitutes a valuable asset capability or competence.

Scarcity: If any resource is widely available, then it's not likely to be a source of competitive advantage. This is a very basic test to understand its resource value.

Inimitability: A resource that lacks barrier to followership does not offer any competitive advantage because it will be widely available from a variety of sources. e. g. services / design etc. Inimitability is not sustainable as at some point competition matches or even betters any offering. However, firms should make an effort which may temporarily limit imitation. Physical uniqueness, causal ambiguity or scale deterrence are few ways how organizations attempt doing it.

Durability: Competitive advantage is getting less and less sustainable owing to highly competitive market environments. Resilience in such situations become a more severe test for appreciating resources, capabilities and competencies.

Superiority: Good is not primary and sufficient condition. Firm must be superior than its competitor. Competencies are cherished only if they demonstrate themselves as competitive advantages and this means that they are better to those held by rivals. These opinions lead to influencing how a firm's internal resources might be linked to creating a competitive advantage and which resources truly fit in so as to yield a competitive advantage.

Investing in resources physical, human and intellectual improves organizations threshold resources as well as threshold competencies. The impact of improve competencies has following impact…

	Resource: Competence		
	Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity		✓	
Quick	✓		
Resources		✓	
Relationships	✓		

The Critical Success Factor (CSF)

Critical success factors are those which impact organization's success in a competitive environment and therefore the organization needs to improve on them since meagre results may lead to declining performance. Organizations depending on the environment they operate in and their own internal circumstances can recognize pertinent critical success factors. However, pioneering work on strategy suggests a few general sources of critical success factors that have been identified based on empirical research.

They are as follows:

Industry Characteristics: Macro factors affect the sector, where as micro factors affect the company. Industry specific critical success factors are factors critical for the performance of an industry. For instance, in telecom industry upgradation and network penetration is critical. Similarly, for an automobile industry fuel efficiency, meeting environmental norms is critical.

Competitive Position: Competitive position of the firm with respect to its competitors also determine the critical success factors. Large and dominant players in an industry may set the rules of the game. Their dominance and activities define the critical success factors for new entrants. This is particularly true in case of commodity products or industry which are mature. For instance, free home delivery of consumer durables started by the authorized show rooms soon became a practice and stand-alone retailers selling multiple brands had to offer free home delivery.

General environment observed from any of the dimensions may determine the CSFs. Most simply put in years of drought, availability of water is at premium and having access to assured source of water can become the critical success factor for many industries like tanneries etc. For the same industry considering environmental norms, adhering to anti-pollution standards becomes critical success factor.

Organizational Developments – On many occasions developments within the organizations, force internal considerations to become temporary critical success factors.

Following table analyses the environmental factors and organizations SWOC. Organization needs to identify which resources would help it in overcoming the challenges and which resources organization must acquire to be competitive.

	Positive	Negative
Internal factors	**Strengths** Technological skills Leading brands Distribution channels Customer loyalty/relationship Production quality Scale Management	**Weakness** Absence of important skills Weak brands Peer access to distribution Low customer retention Unreliable product/service Sub-scale Management
External factors	**Opportunities** Changing customer tastes Liberalisation of geographic markets Technological advances Changes in government policies Lower personal taxes Change in population age structure New distribution channel	**Challenges** Changing customer tastes Closing of geographic markets Technological advances Changes in government policies Tax increases Change in population age structure New distribution channel

The purpose of the strategic analysis is to structure relationship between a business and its environment. Failure or success depends on the environment in which the business operates. Strategic choice that the organization makes while responding to the dynamic environment has direct impact on the performance of the business. Thus it is important to understand the various external environmental forces which influence the business outcome. It is the external environment which either offers opportunities or threats to the organization.

The strategic choice thus should aim at leveraging the opportunities and overcoming the threats that incipient from the external factors. At the same time the changes, in the environment affect the attractiveness or risk levels of various investments of the organizations or the investors.

Broad Dimensions of External Environment

The external environment in which the organization operates can be broadly classified as the Macro Environment and the Micro-Environment. The macro environment consists of the economic, political, regulatory (legal), socio-cultural and technological environment. These factors often interact with each other. For instance, changes in the political situation may alter the economic and regulatory policies in a market. If the technological factors are leading to concentration of wealth, regulatory environment may be altered to ensure equitable distribution of wealth. Frequently changing regulatory environment destabilizes business environment leading to frequent changes in strategy. Lack of consistency in business strategies make implementation of strategy difficult and

may reduce profitability of the organization, or even sector. Frequent changes in government policies lead to complexities in business environment.

PESTEL Framework

Dynamic external environment also leads to changing consumer preference. Advanced technology renders many existing products obsolete as consumers prefer new products which offer better terminal benefit. The benefits are not necessarily in terms of better features, it could also be because of improved productivity, energy efficiency reduced cost etc. A meaningful analysis of external environment gives decision makers an insight into trends in consumption pattern. Thus it is important for the organizations to carry out the external factor evaluation and look at the organizations resources to overcome the external threats.

Organization in order to achieve long term objective must evaluate external environment on a regular basis for growth opportunities as well as sustainability. Organizations many times have to redefine their vision and mission statements, objectives and strategies to cater to new neds of the customer.

The constituents of the external factors may be listed as below…

Political,
Economic,
Socio-cultural,
Technological,
Legal

Political Factors:

Political factor is one of the most important constituents of the external factors that a firm must evaluate. Evaluation includes the stability of the government. An unstable government is generally indecisive and there are frequent policy changes. Governments have their own political values and beliefs. Government's political values and beliefs shape the state policies, regulatory environment, taxation policies etc. different governments have different priorities and a change in the government changes its priorities in social sector. As has been pointed out earlier most economic policies are deeply influenced by the political ideology of the government. Though in the recent past we have seen some amount of policy stability post 1991. The liberalization policy has been carried forward by subsequent government despite different ideologies. Pace of liberalization may have been different among the governments but the policy was not rolled back by the central governments.
Stability of the Government
Political values and beliefs shaping policies of the state
Regulations towards trade and global business
Taxation policies
Priorities in social sector

The economic factors:

The economic indicators can be listed as national income, GNP, Personal disposable income, personal consumption patterns. The policy initiatives undertaken by the government get reflected in monetary policy, fiscal policy, labour and employment policy etc. The foreign sector may get reflected through the exchange rates, imports/exports. Industry situation can be analysed through investment in the industry, FDI flows, services, infrastructure. Sectoral growth should be analysed in agriculture, industry. Capital markets can be analysed through equity market, bond market etc.

Prices, wages and productivity, inflation, labour productivity are other indicators. Economic factors significantly affect consumption pattern. Economic factors provide insight to the organization on the consumption pattern in the economy. Reduced lending rates may imply multiplier effect to the economy and reduced interest rates may indicate shift to capital markets and mutual funds.

A multiplier is also determined by the consumption and saving patterns in the economy. Thus for the better insight through economic factors, firm must closely watch the impact of Interest rates, inflation rates, unemployment rates and trends in the gross national product, government policies and sectoral growth rates.

In India contribution of service sector to national income is increasing every year. With more number of working mothers the family income too is rising. These socio cultural changes are opening new opportunities as well as creating challenges for the organizations.
GNP trends of the state
Interest rates/savings rate
Money supply
Inflation rate
Unemployment
Disposable income
Business cycles
Trade deficit/surplus

Socio-Cultural Factors

The social factors include demographics forces. The demographic forces include the population size, growth, density of population in various cities, regions and nations, age distribution, ethnic mix, educational levels, house hold patterns and regional characteristics and movements. Government also monitor the demographics for the economic policies. Increasing life expectancy in the country while creating an opportunity also poses a challenge of meeting health related expenses and offering of services. A large working population offers demographic dividend to countries but in time to come it may shift.

Countries develop competitive advantage based on the composition of literates in the country. India achieved a competitive advantage based on its geographical location and English speaking population for BPO. Large number of engineers opened up opportunity for the software companies to set up their operations in India. Labour intensive projects were started in India because of the availability of economical labour.

Another social factor which influences consumption patterns is cultural factor. There are two types of cultures. An inherited culture is the culture which consumer inherits from parents. And the acquired culture is one that consumer acquire while working with the institutions. Culture may be defined as the social attitudes, values, customs, beliefs, rituals and practices in the society. Cultural factors have a very deep impact on consumption.

Consumption of products is influenced by the cultural factors. For instance, food, jeweller, gift items clothes and garments buying is heavily influenced by the cultural factors. KFC has introduced many India specific products so has Pepsi and McDonald. Though the culture does shift, the impact of cultural factors is quite wide.

Culture has the widest and the deepest impact on the buying behaviour. Within the culture there are many sub-cultures which have impact on the consumption pattern of the society. Various socio

cultural factors that have impact on the consumption are the population demographics, ethnic composition, aging population, regional variances in population growth, social mobility, lifestyle changes, attitudes to work and leisure, education - spread or erosion of educational standards, health and fitness awareness, multiple income families.

Culture keeps shifting across the world. When conservative societies are accepting the liberal attitude, many liberal societies are getting conservative. For instance, yoga is now being practices in the western countries; and India is adopting to many western cultures. Shifting of the demographics alters the consumption pattern. With a greater number of working mothers' acceptance to ready to eat or ready cook products is increasing.

Nestle, as a marketer of convenience foods, faced a challenge that few others did. Pointed out Sangeeta Talwar, who was heading marketing department before moving to global headquarters in Switzerland, "The thing you change last is what you eat." Chiefly a marketer of western products consumed by rich folk in India it was trying to stretch its influence into homes that had neither the income nor the inclination to adopt packaged foods[v]. The company found itself up against a ritualized part of Indian tradition. Nestle's principal target continued to be the educated urban housewife who didn't see a convenience product as a compromise on looking after the family, company did not expect her palate to be any more western than the average. Attitudes change slowly.

Thus the socio-cultural factors play a major role in determining company's strategies. Organizations thus need to customize their products to cater to market demand with due consideration to cultural factors.

Population demographics

- Ethnic composition
- Aging of population
- Regional changes in population growth and decline

Social mobility
Lifestyle changes
Attitudes to work and leisure
Education - spread or erosion of educational standards
Health and fitness awareness
Multiple income families

Technological

Like the social, cultural and demographic factors even technological factors are not controlled by a single organization. Moreover, acceptance to the technology also depends on the economic conditions of the market. Advances in technology creates opportunity for the developer while it may pose threat to other organizations in the given industry. Thus, while formulating strategies lot of emphasis is put on the technological factors. Advances in technology tend to significantly influence the existing products, services, suppliers, distributors, competitors, customer preference, manufacturing processes, marketing practices and competitive position. While opening up new markets, technological advances can render existing products and services obsolete. While technological changes can eliminate or reduce cost barriers between businesses, lead to shorter production runs and shortage of technical skills.

Technological factors also help organizations in differentiating itself from competitors as well. For instance, in a photocopier market, Modi Xerox had wrapped up most of the corporate India's

‘xeroxing’ work for itself. Ricoh was No. 2 in a marked shared by Bee Electronics Machines, Kilburn Reprographics and HCL Toshiba. Though the market was created by Xerox, Canon had cornered 18 per cent share of the market.

Canon’s core competency was in imaging technology[vi]. In its view, photocopying was mainly about imaging, not documentation, and it had built itself an enviable reputation for rigorous-use copiers that keep the nth reproduction on par with the first. It was the result of its patented ‘Toner Projection Development System’ and its ‘Organic Photo Conductor Technology’, which combined to deliver cleaner and sharper copies that what Xerox’s selenium-drum copiers could manage.

Advancing technologies can also alter the way companies do their business. Mobile penetration, very economical data packs and internet penetration supported by availability of sophisticated low priced handsets have revolutionized many sectors. For instance, banking. Today major banking transactions are done through handset. Reduced data tariff by telecoms, owing to high level of competition has complemented the digital transaction. Entry of Paytm, google pay and others have also helped the governments digital economy initiatives. The technological advances thus affect many sectors. It creates new opportunities and poses challenges for existing businesses.

Advancing technological factor affect business environment. Organizations need to accept the challenge of changing environment to cater to existing as well as emerging needs of the customers.
Biotechnology
Process innovation
Digital revolution
Government spending on research
Government and industry focus on technological effort
New discoveries/development
Speed of technology transfer
Rates of obsolescence

Legal

During the licence raj the legal environment included licensing policies, quota restrictions, import duties, Forex regulations, restrictions on FDI flows, controls on distribution and pricing of commodities together made the business environment difficult and complicated. Since liberalization policy of 1991 with economic reforms things have changed and legal formalities have eased. However, with globalization and the integration of economies across the world, due consideration has to be given to the general environment also apart from the competition rules, trade mark rights and patents, WTO rules and implications, pricing strategies, product quality laws and a large number of other legal issues in respective countries.
Monopolies legislation/Anti-trust regulation
Employment law
Health and safety
Product safety

Environment:

Deteriorating environmental balance has led to governments across the world come up with stringent environmental laws. Automobile industry is one of the largest affected sector because of stringent environmental laws. One of the factor driving recession in India is the poor performance of the automobile industry in the country owing to BSIV norms. The stricter emission norms affect most of the production units. Regulations regarding ZLD (zero liquid discharge) are altering the production processes across sectors. Apart from the government and legislations, other stakeholders are also keenly observing the production processes and the final output of the businesses. Production processes are monitored for the use of resources whether they are biodegradable or not, the emission from the industry, if it is polluting air, excessive chemical affluent drained out in water and its impact on water and nearby areas, usage of bio non-degradable resources affecting the bio-chain adversely and whether the employees are exposed to hazardous radiations bringing their life in danger. Thus the implications of the environmental factors are far reaching for the business raging from the kind of business, the production process and the product itself.

The general environment:

While formulating organization's strategy, decision makers need to analyse the probable impact the changes may bring in their industry. The impacts are never identical for all the industries. For instance, socio cultural changes in India will have different consequences for businesses in media - entertainment and automobile. Media and entertainment industry will have to adapt the new emerging culture, whereas the automobile sector may not see similar impact on sales or may even see a drop in sales as the millennials are not very keen on asset acquisitions. These observations have to be integrated in the strategy. In response to these assessments of differential impacts, decision maker will be able to take advantages of the opportunities or guard themselves of the threats.

As has been pointed out earlier company can employ two approaches in responding to the changes. The company Approaches can be[vii]

Reactive/Follower

Or

Proactive/Leader

Depending upon the Future Market Conditions. If the market conditions are gradual, evolutionary change the company's Reactive/Follower approach could be revising strategy in time to catch the waves of change. But if the changes are rapid revolutionary change then the reactive/follower strategy can be to keep from being swamped by the waves of change. Company can shift to proactive leader in gradual evolutionary change by anticipating change and initiating strategic actions to ride the crest of change. If the changes are rapid revolutionary and the organization contemplates going for proactive leader strategy it may do so by aggressively altering strategy to make waves and drive change.

The decision makers thus should make strategic initiatives by differentiating the future market conditions as gradual evolutionary or rapid revolutionary.

The competitive landscape in the market can undergo changes as a result of dynamic technological changes. The fragmented industries may start consolidating as a result of technological changes. As in case of telecom and banking sector in India.

Environmental Scanning

These macro factors, PESTEL framework are very difficult to understand because of their interaction with each other. Because they interact with each other they present a very complex and uncertain picture of future.

For a long term strategy development, it is important to identify key factors influencing the success of the strategies. It is important to identify factors driving the rapid and revolutionary changes that may swamp the organization. The objective of environmental scanning is to promote the consciousness of decision makers about prospective advances that could have an impact on industry conditions and bring in new opportunities or challenges.

Environmental scanning involves systematic monitoring and analysis of current trends and factors leading to current trends. What new trends are likely to emerge from the past events and current trends. It also involves identifying key drivers of change and grouping of environmental influences.

In order to address the high level of ambiguity about the future environment, organizations need to build scenario of how the business environment of the organization might be by grouping of key environmental influences and agents driving the change. For instance, in sectors like power, infrastructure, defence equipment etc. the need is not to address immediate environment but the scenario 10-15 years down the line with respect to consumption, manufacturing processes and availability of substitutes would be crucial. It is very difficult to predict the business environment for such a long term. Many new scenarios may come up over such a long period.

Michael Porter developed a framework to evaluate the competitive environment. The framework helps in examining the competitive environment.

The competitive environment over such a long period is shaped not only by the immediate rivals but other forces as well. These forces are…

1) The threat of entrants

2) The bargaining power of suppliers

3) The bargaining power of customers

4) Availability of substitute products

5) The rivalry among firms in the industry

As in case of other environmental forces, these forces are also integrated with each other. The intensity from one direction can prompt changes in another which is capable of shifting the sources of competition.

The Threat of New Entrant

A new entrant in a market can be a threat to existing players. The established player may face challenges of retaining market share, the new player adds to the production capacity of the industry, the new player may force existing players to alter their promotional strategies, investment strategy.

Though established players may not always immediately face threat, but may resort to developing entry barriers for new entrant. The purpose of the barriers is to discourage new entrant. Established players can create entry barriers by employing multiple strategies. The strategies that the organization needs to employ need resources. We discuss the strategies and the resources.

Economies of scale

Organizations with large production facilities benefit from economies of scale. Organization benefits from lower cost of production, if it decides to pass the benefit to customers then the organization enjoys price competitiveness. Normally, a new firm may not get benefited by economies of scale, as it starts on a smaller scale. The economies of scale are not restricted only to lower production cost but extends right from procurement of raw material, R & D, distribution, advertising, marketing, finance, customer service, financing etc.

Economies of scale are not restricted to a specific sector. For example, Coke & Pepsi enjoy economies of scale. With dominant market share, both companies enjoy economies of scale on all fronts like, production, distribution, promotion. A new entrant will always find it difficult even at regional level to enter the market. Similarly, consumer durable firms like LG & Samsung enjoy similar economies of scale and thus benefit in procurement, production, distribution and promotion. New entrants find it difficult to match price competitiveness of LG and Samsung in mass markets.

Resources required to develop economies of scale need production capabilities which may be capital intensive, organization also needs market to sell the products. This may warrant marketing efforts for developing new markets, distribution network which also needs investment and managerial competencies.

Type of Resource	Description for Economies of Scale
Physical Resources:	The fixed assets, buildings, machinery or functioning capacity. However, the specific condition and capability of each resource determines their usefulness. Technological skills.
Human Resources:	Knowledge about the market as well as customers and skill of people to market output of the organization.
Financial Resources	Capital, cash, debtors and creditors and suppliers of money.
Intellectual capital:	Patents, brands, business systems and relationships with associates, to leverage large production.
Threshold Resources	Needed to perform in all markets and also stay in business.
Unique Resources	Competitive advantage Difficult to imitate and add more value to product than the competitors. Scale of operations offer unique resource Patent
Core Competencies	Specific set of skills or production techniques that deliver additional value to the customer. Ability to meet the critical success factors of particular customer groups better than other provides ways that are difficult to imitate. Management.
Competitive Position:	Competitive position of the firm with respect to its competitors. Define the critical success factors for new entrants. Brand Image Distribution channels Customer loyalty/relationship Production quality

The Experience Curve

The experience curve theory suggests that as the firm's production increases it gets more efficient resulting in cost benefits. The increased efficiency is result of experience, which enables organization better ways of doing things. If the industry operates in environment where experience curve delivers cost benefit the new entrant finds it difficult to match the competitive advantage gained by established players. For sector where the technology is in the embryonic stage experience curve is irrelevant.

Type of Resource	Description for Experience Curve
Physical Resources:	The fixed assets, buildings, machinery or functioning capacity. However, the specific condition and capability of each resource determines their usefulness. Technological skills.
Human Resources:	Knowledge of using the physical resources more productively. Knowledge about the market as well as customers and skill of people.
Unique Resources	Experienced workforce is a unique resource and offers competitive advantage. Difficult to imitate and add more value to product than the competitors. Scale of operations offer unique resource Patent
Core Competencies	Specific set of skills or production techniques that deliver additional value to the customer. Ability to meet the critical success factors of particular customer groups better than other provides ways that are difficult to imitate. Management.
Competitive Position:	Experience of dealing with customer offers a competitive position to the firm with respect to its competitors. Define the critical success factors for new entrants. Brand Image Distribution channels Customer loyalty/relationship Production quality

Cost advantage independent of scale

Established as well as new entrant can have a cost advantage independent of scale. It can be through the patent or a proprietary product knowledge. Sometimes the established players benefit from geographical location, a plant location closer to raw material or market, and infrastructure built when the interest rates were low or the technology was available at lower prices.

Type of Resource	Resource independent of scale
Intellectual capital:	Patents, brands, business systems and relationships with associates.
Unique Resources	Competitive advantage Difficult to imitate and add more value to product than the competitors. Scale of operations offer unique resource Patent
Core Competencies	Specific set of skills or production techniques that deliver additional value to the customer. Ability to meet the critical success factors of particular customer groups better than other provides ways that are difficult to imitate. Management.
Competitive Position:	Access to raw material Competitive position of the firm with respect to its competitors. Define the critical success factors for new entrants. Brand Image Distribution channels Customer loyalty/relationship Production quality

Perceived quality of the product

Established firms often have a brand which is well established in the market for its perceived quality. For established firms experience curve also enriches knowledge about customer as well as market. A new entrant faces challenges related to product quality as well knowledge about the market and customers.

Capital requirements

Capital intensive businesses create a barrier for new entrant by virtue of heavy investment thereby restricting new entrants.

Switching costs

Switching costs refer to the expenses (both financial as well as psychological) which a customer incurs in switching from one seller to another. If the switching costs are high new entrant finds it difficult to establish. With number portability in the telecom sector the switching cost from one service provider to another dropped significantly. Earlier the user had to inform all contacts about the new number when switched to another service provider. The financial costs were relatively low but the psychological cost, that the contacts will edit the number were very high.

Access to Distribution Channel

A favourable access to distribution channels provides strong competitive position. Particularly in FMCG sector distribution is a very important activity. The established players are found to have a strong and favourable distribution channels. Companies like ITC, HUL have deep market penetration through strong distribution channels.

Anticipated growth

When the market is growing it can accommodate new entrant and even the existing players are unlikely to respond to new entrant. However, when the market growth is slow, new entrant finds the market less attractive.

The other entry barriers are in the form of regulatory policies of the government, tariffs and international trade restrictions etc.

The bargaining power of suppliers

Business organizations have always had dependency on the suppliers. The interdependency of the firms has increased ever since the concept of core competency has found acceptance because of its obvious results on bottom line. A supplier decision on quality of goods and services, prices, delivery terms and conditions, payment terms & conditions have a significant impact on the profit trends of an industry. However, supplier's decision making depends on the bargaining power of the customer.

Supplier's bargaining power typically depends on following factors….

It is not obliged to contend with other substitute products for sales in the industry.

A supplier is powerful if it is not obliged to contend with other substitute products for sales in the industry. If the supplier does not face significant competition in the industry, it has no reason to have competitive pricing and thus is powerful.

The industry is not an important customer of the supplier group

A supplier is powerful if the customer is not an important customer for them. A customer may not be important to the supplier for variety of reasons such as, the purchase quantity or profitability in that buyer group is low, or even the potential growth of the customer is low, then the suppliers have to reason to cut prices and retains its higher bargaining power.

The supplier group is an important input to the buyer's business

The supplier is powerful if the product is an important input to the buyer's business. If the quality of the product depends on the performance of supplier's product, then the bargaining power of the supplier is higher. For instance, the performance of electronic products heavily depends on the microprocessors, the bargaining power of microprocessor manufacturers is high.

The supplier group's products are differentiated or it has built up switching costs

Differentiated products and products which have built switching costs always enjoys higher bargaining power. User friendliness, better quality or brand image allows suppliers to have better bargaining power. Similarly, if the change in supplier leads to higher switching costs for the buyers then the supplier has better bargaining power.

The supplier group poses a credible threat of forward integration

A situation in which the supplier can move up the value chain, opportunity to go for forward integration, suppliers have higher bargaining power. Opportunity to move forward also depends on multiple factors like entry barriers, profitability, level competition etc.

Threat of backward integration

If the buyers can easily opt for backward integration, then the supplier positions are not strong. If the industry is dominated by a few large organizations, then these companies exercise a higher control over suppliers.

Bargaining power of customers

If the customers bargaining power is higher then, they force the suppliers to reduce price or demand better quality for the same price and also demand more favourable business terms. The bargaining power of customers is linked to number of factors like…

If the products offered by seller are not differentiated, then the customers enjoy higher bargaining power. For instance, in a perfectly competitive market situation with large number of suppliers, prices are controlled automatically.

Price sensitivity

Buying behaviour of customers vary with respect to their sensitivity to prices. Buyer's sensitivity depends on the importance of the product to the customer. Depending on how important the item is, customer's usage and proportion he may be spending on the concerned item. A group of customers with high price sensitivity tend to bargain higher. However, if the products are differentiated then the bargaining power of the customer reduces. For instance, people buying baby care products tend to have less bargaining power, as the products are considered to be very important and differentiated.

Information about the cost structure of suppliers

Fine information about the cost structure of products being purchased increases the bargaining power. Informed buyers tend to bargain for proportionate reduction in the price from supplier the moment they know the decline in supplier's cost. With integrated economies, a price reduction can come from any corner of the world. The cost reduction may come as result of production process, use of economical substitute, economies of scale or even general decline in prices.

Volume of purchase and concentration in Buyer's Industry

The large buyers and relatively smaller suppliers means the buyers have more bargaining power. If the purchase quantity is high buyers tend to have higher bargaining power. If the buyer has a large subscriber base for its products, then they get better prices from supplier because of the bulk purchases. The large buyers tend to bargain not only on price but also on other terms like supply schedule, payments terms, credit period etc.

Threat of backward integration by buyers

Suppliers tend to attempt forward integration and buyers tend to go for backward integration. Both backward as well as forward integrations are the forms of vertical integration indicating successive stages of production. Forward integration refers to moving closer to customer, whereas back integration refers to moving closer to supplier's business. It is also termed as dependency reduction strategy. For example, a manufacturer of air coolers starts manufacturing fans which till date they were buying from suppliers. For both the integration strategies the key aspect to pay attention is you cannot run two businesses at the margin of one. Both the businesses have to be profit centres for the organization. But if there is price increase by suppliers then the risk of buyers going for backward integration is very high.

Threat of Substitutes

Many a times, the competition is not from the direct rival but outside industry products which may be close substitutes. Technological advances have been creating many substitutes in large number of industries. Importing benefits from other product categories also creates substitutes. For instance, when Godrej added a full length mirror to its steel cupboard, it started competing with the dressing table for space in middle class families. A handset today has imported benefits from many product categories, particularly the smartphones. An app is a substitute for many physical products in the handset. An app of a calculator, alarm clock and many more.

However, there are broadly three factors which determine the competitive pressure from substitutes, these are…

Whether the substitutes offer the same functional benefit with respect to quality and performance

The price is attractive and lastly,

What are the possible switching costs.

Rivalry among the firms

In a perfectly competitive market the rivalry among the firms is minimum, as there are large number of buyers and sellers and the products are undifferentiated. However, in case of oligopoly or monopolistic competition, where there are a few players and the market conditions allow them to differentiate their offerings, competition turns into rivalry. The degree of rivalry depends on …

The stability of environment

Rivalry among the firms in an industry is a result of unstable environment. There are several factors that drive the unstable environment like technological innovation, frequent changes in government regulations, customer preferences, and their need and wants. The entry and exit barriers in the industry too change the rules of the game frequently. Currently the frequent changes in the regulations with respect to the ecommerce business resulted in intense rivalry among firms like Flipkart and Amazon. It also led to consolidation in the industry. Similarly, in banking sector, frequent technological advances and regulatory changes led to consolidation in the industry. With penetration of internet in India and the growth of the smartphone changed the way banking is done. With more online transactions the banking sector has experienced unstable environment and changing customer preference, resulting in rivalry among players.

Anticipated life of competitive advantage

In certain industries innovations have a very short life span, for instance, consumer electronics the technology life cycles are short, the innovations do last longer. This has negative impact on the stability of the competitive environment leading to rivalry. The shorter technologies and lack of patent and absence of switching costs are some of the factors leading to rivalry among the firms.

Slow growth in the industry coupled with large number of equally balanced competitors are also responsible for the rivalry. The entry costs, in terms of fixed costs and the capacity augmentation in large capacity are the other factors leading to rivalry among firms. Since the market growth is slow all the firms chase same target market further intensifying the rivalry.

The competitive strategies employed by one firm puts competitive pressure on the rivals and thus intensifying the rivalry. One of the missing links in the model is complementary products[viii].

Process for Analysing the External environment

The process for analysing the external environment. This consists of three steps which are as follows:

Step 1: Identifying the firms – on industry as a whole or there may be sub focus groups called strategic groups.

Step 2: Intelligence gathering or environmental scanning on the general environment of the industry or strategic group.

Step 3: Organizational Environment Information-Scenario planning is a process suitable for the purpose and form the best inputs for the strategy formulation process.

The information can be gathered from the following sources:

i) Internal
ii) Newspaper/Magazine/Net
iii) Government
iv) Survey Secondary Database
v) Customer and Suppliers
vi) Competition

Using these sources, the environmental analysis for any organization can be done.

Thus the major resources the organization should focus on acquiring and consolidating in order to improve the 5 elements. As pointed out earlier, a few resources improve better utilization of other resources as well.

Type of Resource	Description
Physical Resources:	The fixed assets, buildings, machinery or functioning capacity. However, the specific condition and capability of each resource determines their usefulness. Technological skills.
Human Resources:	Knowledge about the market as well as customers and skill of people.
Financial Resources	Capital, cash, debtors and creditors and suppliers of money.
Intellectual capital:	Patents, brands, business systems and relationships with associates.
Threshold Resources	Needed to perform in all markets and also stay in business.
Unique Resources	Competitive advantage Difficult to imitate and add more value to product than the competitors. Scale of operations offer unique resource Patent
Core Competencies	Specific set of skills or production techniques that deliver additional value to the customer. Ability to meet the critical success factors of particular customer groups better than other provides ways that are difficult to imitate. Management.
Competitive Position:	Competitive position of the firm with respect to its competitors. Define the critical success factors for new entrants. Brand Image Distribution channels Customer loyalty/relationship Production quality

Every resource has a different impact on the 5 elements. The cumulative impact of resources on the 5 elements can be summarized as follows…

	Resource: Cumulative Importance/Level of Impact		
Element	**High**	**Moderate**	**Low**
Quality	✓		
Quantity	✓		
Quick	✓		
Resources		✓	
Relationships	✓		

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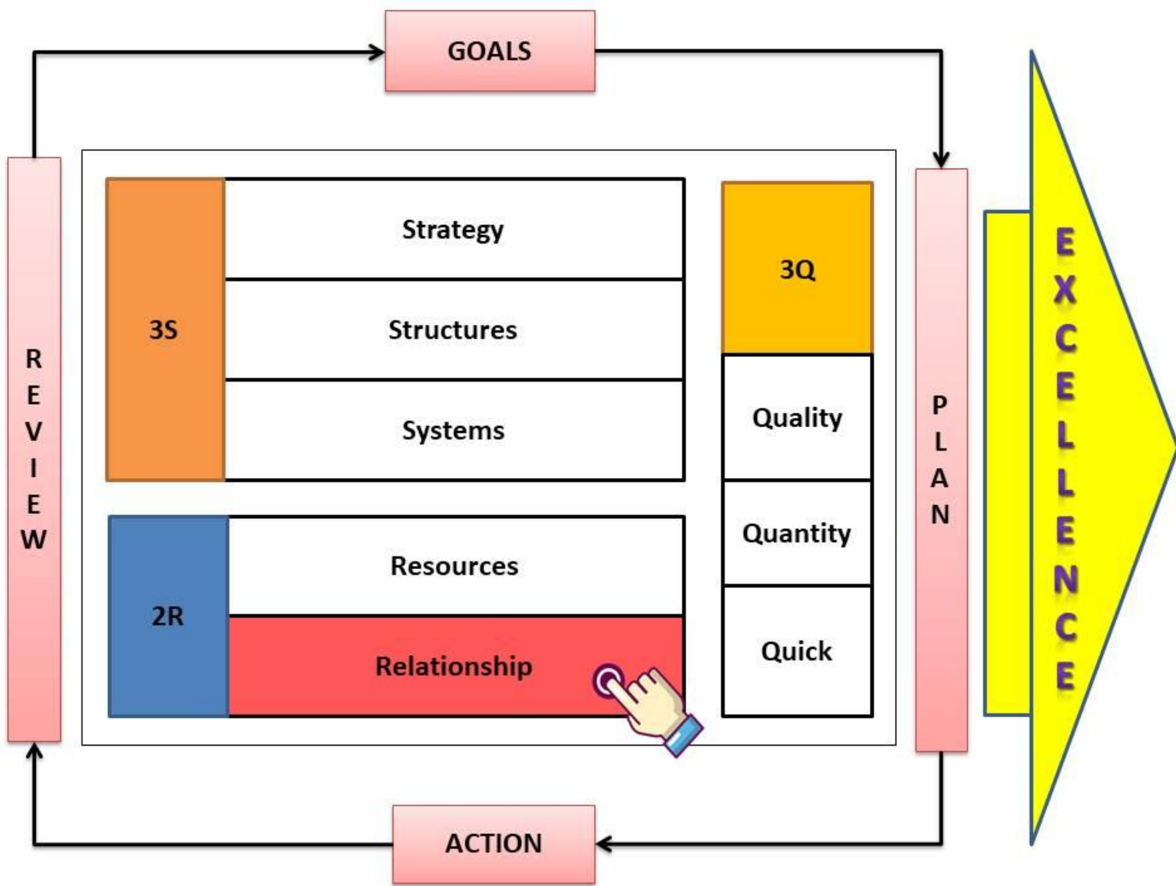
[i] Porter, M. (1980), Competitive Strategy: Techniques for Analyzing Industries and Competitors, Free Press, New York.
[ii] Fahy, J. and Smithee, A. (1999), "Strategic Marketing and the Resource Based View of the Firm", Academy of Marketing Science Review, Vol. 10, 1999.
[iii] Mohiuddin Asad, Five Forces Vs Resource based view – A comparison,: http://ssrn.com/abstract=1986725
[iv] Schilling, M. A. (2013). Strategic management of technological innovation, p.117 International Edition, McGraw-Hill Education.
[v] Shirali, Aresh and Khandekar, Sreekant, The growth imperative, A&M 30 June 1996
[vi] Chakraborty, Alokananda; Cloning differently, A&M, 31 July 1999
[vii] Source: Adapted from Derek F. Abell, "Competing Today While Preparing for Tomorrow," Sloan Management Review 40, No. 3 (Spring 1999), p. 75.
[viii] SEPTEMBER 2014, McKinsey Quarterly, What strategists need: A meeting of the minds


GOALS
REVIEW
3S
Strategy
Structures
Systems
2R
Resources
Relationship
3Q
Quality
Quantity
Quick
PLAN
EXCELLENCE
ACTION

Chapter XI

Relationship

Let's ask ourselves…

From whom will you buy a product?

A friend or a stranger.

Mostly the answer is friend.

What if your friend is charging more?

Hmm…

I may buy from the stranger. Sure? Hmm… Depends, but I will ask my friend about the price, I think… may be yes, eventually yet I may buy from my friend.

Even if your friend is charging more? In most cases, yes.

We are not suggesting that one should charge more to friends, or premium. But that is the power of relationship.

Organization must maintain healthy relationship with all environmental forces, be it internal or external. The micro environmental forces affect the ability of the organization to serve its customers. Whereas, macro environmental, the larger societal forces affect the microenvironment. A healthy relationship with these forces is of critical importance. Though the primary job of the organization is to attract and foster relationship with customers by creating customer value and satisfaction, the mission cannot be realized alone. The accomplishment depends on the company's microenvironment – suppliers, intermediaries, customers (internal as well as external), competitors and various public, which are also the constituent of organization's value delivery system. Organizations needs to develop and maintain good relationship with all these partners.

Relationship with Suppliers

Suppliers are crucial link up in the organization's overall customer value delivery system. They deliver the resources required by the organization to produce its goods and services. Organization must watch supply availability, supply shortages or delays, labour strikes, and other incidents can cost sales in short run and hurt customer satisfaction in the long run. Organizations must keep an eye on the price trends of their vital input. Mounting supply costs may force price increases that can harm the organization's sales volume.

Supplier relationship can be maintained by helping suppliers overcome their problems and grow along with the organization. As discussed in the chapter systems, developing and helping suppliers develop systems builds relationship with the organization and suppliers treat the organization as valued customer. These relationships are also very important when organizations are aiming for JIT production systems and short supplies for any reason beyond control of the organization. Being treated as a valued customer, ensures steady supply of the inputs.

Relationship with Intermediaries

Intermediaries perform more tasks than distributing goods to the final consumer. Intermediaries perform functions like, financing the organization, maintaining inventory, promote, possess and physically distribute the products, risk taking, negotiate, order taking and take the title of the goods. Intermediaries include, resellers, physical distribution firms, marketing service agencies, and financial intermediaries. Today, organizations face large and growing reseller organizations who frequently have enough power to dictate terms or even shut the manufacturer out of the market. All the intermediaries carry out different functions, for instance, physical distribution firms help the organization to stock and move goods from their points of origin to their destination. They also ensure warehousing, transportation, delivery, speed and safety take place in a very cost efficient manner.

Like suppliers, developing the intermediaries with systems and addressing their problems is the finest way of developing relationship with them. Apart from transparent systems, and maintaining the required and recommended trade margins, distributor development grams will help these organizations.

Marketing service agencies are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right market. Identifying their major problems faced by the intermediaries and helping them overcome the same can develop better relationships. Maintaining appropriate inventory upgraded billing systems to match the regulatory requirements can help organization improve their relationship with the intermediaries.

Financial intermediaries include banks, credit companies, insurance companies, and other businesses that help finance transactions or insurance against the risks associated with the buying and selling of goods. Most organizations and customers depend on financial intermediaries to finance their transactions. Organizations can look at simplifying the documentation work of these partners. By reducing their documentation work, simplifying the buying process, customer as well as the supplier is benefitted.

Relationship with Public

A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. Kotler and Armstrong (1999) have identified seven types of publics.[i]

1. Financial public influence the company's ability to obtain funds. Banks, investment houses, and stockholders are the major financial public.
2. Media public carry news, features, and editorial opinion. They include newspapers magazines, and radio and television stations.
3. Government public. Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth in advertising, and other matters.
4. Citizen action public. A company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups, and others. Its public relations department can help it stay in touch with consumer and citizen groups.
5. Local public include neighbourhood residents and community organizations. Large companies usually appoint a community relations officer to deal with the community, attend meetings, answer questions and contribute to worthwhile causes.
6. General public include workers, managers, volunteers, and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over to external publics.

An organization should put in order plans for these major publics as well as for its customer markets. When the organization expects a particular reaction from a particular public, such as good will, positive word of mouth, or donations of time or money. The organization would have to draft an offer to this public that is attractive enough to produce the desired response.

Relationship with the customers (external as well as internal)

There are five types[ii] of external customer markets.

1. The consumer markets consist of individuals and house-holds that buy goods and services for personal consumption.

2. Business markets buy goods and services for further processing or for use in their production process.
3. Retailer markets buy goods and services to resell at a profit.
4. Government markets are made up of government agencies that buy goods and services to produce public services or transfer the goods and services to others who need them.
5. International markets consist of these buyers in other countries, including consumers, producers, resellers, and governments.

Each market type has special characteristics that call for careful study by the seller.

The internal customers of an organization are the employees. Organization must have good relationship with its internal customers for quality output effectively and efficiently. Internal customers of the organization also interact with the external customer, predominantly with local public and general public. To have good relations with trade associations, employee unions top managers from the organization should regularly meet, understand and try to address to the needs of these customers as well.

As pointed out earlier, a good investment in time and money builds healthy relationship with forces who influence the organizations smooth functioning.

Following strategies, structures, systems and resources help organization improve its relationship with partners and associates.

	Relationship
	Importance/Level of Impact
Strategy	**High**
Stability	✓
Market Penetration	✓
Product Development	✓
Vertical Integration	✓
JV, SA, Long term contract	✓
Value Chain Analysis	✓
Overall Cost Leadership	✓
Differentiation	✓
Focus	✓
Structure	
Line	✓
Customer Specialization	✓
Systems	✓
Resources	✓

[i] Kotler, Philip and Armstrong Gary; (1999) Principles of Marketing, Eight Edition, Prentice-Hall of India Private Limited New Delhi, 1999

[ii] Ibid

Chapter XII
Frameworks for Evaluation

Final step in the strategic management process is Strategy Evaluation. Once the strategy is formulated and implemented it is important to monitor, evaluate and control the process.
Company's vision sets up the mission and after going through its internal and external environment, company specifies its strategies. Monitoring and controlling of implemented strategies is necessary to evaluate achievement of objectives. The purpose of control mechanism is to take corrective actions, if needed. The corrective actions have qualitative and well as quantitative components. There are many frameworks to evaluate strategy.

Evaluation Process

Strategy evaluation is not the destination. Strategy evaluation is a continuous process and may warrant immediate corrective action. An error may manifest in the form of a blunder over a period of time if the corrective action is not taken. Management thus must develop evaluation system and undertake continuous evaluation.

The evaluation system should clearly define the key result areas, develop measure and set up standards. Control process primarily is to monitor if the events match with the plan. If there are any deviations, then to alter the performance, management has to initiate action wherever necessary. The initiated action could relate to implementation, human resources, strategy formulation, and may even stretch to re-evaluating the organizational strengths, weakness, opportunities and challenges to redefining mission and vision. Thus, it could be tactical, strategic or both. For instance, if the sale of a particular business is not as expected, it may be necessary to reformulate say marketing strategies. A closer evaluation may reveal strategies related to product, price, physical distribution or promotion may require revision. Company may relook at the objectives which were set. If the objectives were too ambitious company may scale down its expectations or increase promotional efforts. If it is noticed that the market itself has moved to another product category, company may consider altering the product portfolio, adding new products and/or withdrawing poorly performing products. Company may even withdraw the complete division if most products in the division are not performing well.

Companies also need to look at the external environment. The political, economic, technological, socio-cultural, ecological and regulatory factors. Changes in these factors can positively as well as negatively impact a business. Thus, while taking any corrective initiatives due consideration to these changes should be given.

The entire evaluation process can be put as follows....

The two major parameters in the evaluation process are effectiveness and efficiency. Effectiveness refers to the degree to which the organization has achieved its objectives and the efficiency refers to the manner of resource utilization for achieving the output.

Mathematic equation for the two can be:

$$\text{a) Effectiveness} = \frac{\text{Output}}{\text{Objectives}}$$

$$\text{b) Efficiency} = \frac{\text{Output}}{\text{Input}}$$

Efficiency is relatively easy to evaluate as input as well as output are quantifiable. A comparison of output to input ratio of organizations indicates the efficiency of various organizations. Since the inputs are mostly quantifiable, an organization can be considered more efficient if it uses less resources for the same output or gives more output for same resources.

However, measurement of effectiveness is more difficult as both numerator and denominator are comparatively more difficult to quantify. Hence assessment of effectiveness is comparatively more difficult than the assessment of efficiency of an organization. While assessing success of corporate strategy, both efficiency and effectiveness should be evaluated.

If an organization has singular objective, for instance, profit, then both efficiency and effectiveness are measured in terms of profit only, the difference between revenue and expense. So, the organization is considered more effective or more efficient if profits are higher. However, if the organization has multiple objectives, and not just profit, then one has to identify and develop multiple measures for evaluating the strategy.

Once the key variables are identified or the key result areas are identified and are developed as measures of performance of the organizations, evaluating strategy becomes relatively transparent.

Business Portfolio Analysis

Portfolio analysis helps organization in analysing how effectively and efficiently the resources are allocated. Diversified organizations have multiple business units operating in different markets. These business units have different vision & mission statements based on the market conditions they operate in, though the vision and mission statements are in line with the corporate objectives, resource allocation is based on the prospects of the business unit.

Portfolio analysis monitors investments in the products that the business units deal with. The decisions makers allocate resources on the basis of growth potential of the product lines. If the decisions makers do not see better prospects for the product, more specifically, the brand, then prunes investment in the brand. Business unit needs to plan for the future as well. Evaluation of the market preferences also leads to introduction of new products. These products may not be profitable for the unit immediately but once the critical mass is achieved these products starts contributing to business unit's profitability and contributions to the organizational objectives.

Performance of the business unit depends on other factors like, competitive reaction, new entrants in the market, technology advances and ability of the organization to adapt to these changes, socio and cultural changes.

Considering all these parameters, portfolio analysis helps in investment decisions with respect to business units and well as products the unit in particular and organization as whole deals with. Particularly for the diversified and multi-product organizations, portfolio analysis is very useful tool.

All business units have to address to three fundamental needs…
Cash Flow
Growth and
Challenges.
Portfolio analysis is one the tools to help managers in evaluating the strategy.

Display Matrices

A number of display matrices have been developed for helping managers choose in what business to have in a portfolio. Each matrix gives more or less focus on one of the three criteria[i]…
The balance of the portfolio;
The attractiveness of the businesses in the portfolio in terms of how profitable they are or are likely to be and how fast they are growing; and
The degree of the fit that the businesses have with each other in terms of potential synergies or the extent to which the corporate parent will be good at looking after them.

BCG's Growth-Share Matrix

Boston Consulting Group developed The Growth Share Matrix, considering that large number of firms carry out multiple business activities in a number of different product-market segments. The growth share matrix enables business units to be evaluated in relation to company's relative market share for the business, representing the organization's competitive positions; and the overall growth rate of that business.

The BCG model, a two-by-two matrix, suggests that for each business activity within the corporate portfolio, a separate strategy must be developed depending on its location of high and low segments on each of the two axes.

Relative Market Share emphasises that the relative competitive position of the company would determine the rate at which the business creates cash. A firm with a higher relative share of the market compared to its competitors will have higher profit margins and therefore higher cash flows.

Relative Market Share is calculated by dividing the market share of the relevant business by the market share of its largest competitor. For instance, if…

Company A has 10 per cent market share,
Company B has 20 per cent market share, and
Company C has 60 per cent share of the market, then
A's Relative Market Share is 1/6,
B's Relative Market Share is 1/3, and
C's Relative Market Share 60/20 = 3.

Company C has Company B as its leading competitor, whereas Companies A and B have Company C as their largest competitor.

Market growth rate is important for a business unit seeking to dominate a market because it may be easier to gain dominance when a market is in its growth state. High growth rate would facilitate expansion of the operations of the participating company. It will also be comparatively easier for the company to increase its market share, and have profitable investment opportunities. A business with high growth rate allows company to reinvest cash in the business and consolidate return on investment. On the other hand, if the market growth is slow, it would be quite difficult for the company to have a fair return on investment. In a slow growth business, if the company has high market share, it may further consolidate its position from reduction in competitor's market share.

Following figure represents the BCG matrix and the terms typically used to refer to the types of businesses in such a portfolio.

BCG Matrix

Market Growth	**High**	Star	Question Mark
	Low	Cash Cow	Dog
		High	**Low**
		Relative Market Share	

The BCG matrix classifies the business activities along the y – axis according to the 'Business Growth Rate" (meaning growth of the market for the product), and the 'Relative Market Share' along the x – axis. The two axes are divided into Low and High sectors, so that the BCG matrix is divided into four quadrants. Businesses falling into each of these quadrants are classified with broadly different strategic categories, as explained below:

A star is a business unit which has a high market share in a growing market. the business unit may be spending heavily to gain that share, but experience curve benefit should mean that costs are reducing over time and, it is to be hoped, at a rate faster than that of competitors. These types of businesses generate as well as use large amounts of cash. The Stars generate high profits and represent the best investment opportunities for growth. The best strategy regarding Stars is to make the necessary investments and consolidate the company's high relative competitive position.

A question mark is a business unit in a growing market, but without a high market share. It may be necessary to spend heavily to increase market share, but if so, it is unlikely that the business unit is achieving sufficient cost reduction benefits to offset such investments. As the business growth rate is high, one strategic option is to invest more to gain market share, pushing from low share to high. The Question Mark business then moves to a STAR quadrant, and subsequently has the potential to become cash cow, when the business growth rate reduces to a lower level.

Another strategic option is when the company cannot improve its low competitive position (represented by low market share). The management may then decide to divest the Question Mark business. These businesses are called Question Marks because they raise the question as to whether more money should be invested in them to improve their relative market share and profitability, or they should be divested and dropped from the portfolio.

A Cash Cow is a business unit with a high market share in a mature market. because growth is low and market conditions are more stable, the need for heavy marketing investment is less. But high relative market share means that the business unit should be able to maintain unit cost levels below those of competitors. The cash cow should then be a cash provider to finance question marks. High market share leads to high generation of cash and profits. The low rate of growth of the business implies that the cash demand for the business would be low. Thus, Cash Cows normally generate large cash surpluses. Cows can be 'milked' for cash to help to provide cash required for running other diverse operations of the company. Cash Cows provide the financial base for the company. These businesses have superior market position and invariably low costs. But, in terms of their future potential, one must keep in mind that these are mature businesses with low growth rate.

Dogs are business units with a low share in static or declining markets and are thus the worst of all combinations. They may be a cash drain and use up a disproportionate amount of company time and resources. The low market share normally also means poor profits. As the growth rate is also low, attempts to increase market share would demand prohibitive investments. Thus, the cash required to maintain a competitive position often exceeds the cash generated, and there is a net negative cash flow. Under such circumstances, the strategic solution is to either liquidate, or if possible, harvest or divest the DOG business.

Methodology for Building BCG Matrix

The Boston Consulting Group recommends the following step-by-step approach to develop the business portfolio matrix and identify the suitable strategies for different businesses.

1. Categorize different endeavours of the company into different business segments or Strategic Business Units (SBUs).
2. For each SBU determine the growth rate of the market which is to be plotted on a linear scale later.
3. Bring together the assets employed for each SBU and establish the relative size of the business within the company.
4. Estimate the relative market shares for the different SBUs.
5. Plot the position of each business on a matrix of business growth rate and relative market share.

Strategic Implications

A diversified organization has the advantage of allocating resources to have a balance portfolio of Stars, Cash Cows, Question Mark and Dog. A diversified organization thus can employ the BCG model to actualize its growth and profit objectives.

Hill and Jones[ii] (1989) observed that "the objective of the BCG's portfolio is to identify how corporate cash resources can be used to maximize a company's growth and profitability" (p, 189). To ensure optimal cash resource allocation and a balanced portfolio, BCG made the following recommendations as outlined by Hill & Jones:

1. Use the cash surplus from any Cash Cow to support the development of selected Question Marks and to nurture emerging Stars. The long-term objective is to consolidate the position of Stars and to turn favoured Question Marks into Stars, thus making the company's portfolio more attractive.

2. Question Marks with the weakest or most uncertain long-term prospects are divested so that the demands on the company's cash resources are reduced

3. The company should exit from any industry where the SBU is a Dog – by divestment, harvesting market share, or liquidation.

4. If the company lacks sufficient Cash Cows or Question Marks, it should consider acquisition and divestment to build a more balanced portfolio. Such a portfolio has to contain enough Stars and Question Marks to ensure a healthy growth and profit outlook for the company and enough Cash Cows to support the investment requirements of the Stars and Question Marks (p.189-190).

Companies mostly will have different SBUs spread throughout the four quadrants of BCG matrix, conforming to Cash Cow, Dog, Question Mark and Star businesses. A broad strategy of a company with diverse portfolio is to retain its competitive position in the Cash Cows, at the same time avoid over-investing, as the market is not growing. The excess cash generated by Cash Cows should be invested primarily in Star businesses, if they are not self-sufficient, to maintain their relative competitive position. Any surplus cash left with the company may be directed towards carefully chosen Question Mark businesses to improve market share for them. Those businesses with low market share, and which cannot be sufficiently funded, may be deliberated for divestment. The Dogs are largely considered as the feeble segments of the company with limited or no new investments allocated to them.

The BCG Growth-share matrix associates the industry evolution characteristic with the company's competitive strength (market share), and constructs a visual display of the company's market involvement, thereby indirectly designating current resource deployment. The fundamental logic is that investment is essential for growth while maintaining or building market share. But, while doing so, a strong competitive business in an industry with low growth rate will offer surplus cash for

deployment elsewhere in the organization. Thus, growth uses cash whereas market competitive strength is a prospective foundation of cash.

Limitations of BCG Matrix

The Growth-share BCG Matrix has a few limitations and weak points which must be considered while using portfolio analysis for developing strategic options.
The limitations are…

1. **Predicting Profitability from Growth and Market Share**

BCG analysis believes that profits depend on growth and market share. However, there are several other factors that make industry attractiveness other than simple growth rate, and the organization’s competitive position may not be revealed in its market share. Nokia’s dominant market share did not reflect its true competitive position. Some other refined approaches have been evolved to overcome such limitations.

There have been specific research studies which show that the well-managed Dog businesses can also become good cash generators. These organizations relying on high-quality goods, with medium pricing and judicious expenditure on R & D and marketing, can still provide impressive return on investment of above 20 per cent.

2. **Difficulty in Determining Market Share**

BCG Matrix gives lot of importance to the market share of a business as a pointer of its competitive strength. The calculation of market share is intensely affected by the way the business activity and the total market are defined. For instance, the market for printers may encompass all types of printers, or only dot-matrix printers or inkjet printers or laser printers. Furthermore, from geographical point of view the market may be defined on global, national or an even regional base. In case of multifaceted and mutually dependent industries, it may also be quite difficult to determine the market share established on the sales turnover of the final product only.

3. **No Consideration for Experience Curve Synergy**

The BCG approach, for strategic purposes, views businesses in each of the different quadrants independently. Suggesting, Dogs are to be liquidated or divested. However, within the structure of the inclusive corporation, valuable experiences and skills can be picked up by operating low-profit Dog businesses which may help in reducing the costs of Star or Cash Cow businesses. And this may contribute to higher corporate profits.

4. **Disregard for Human Aspect**

The BCG Matrix, while taking into consideration different businesses does not take into account the human aspects of administration in an organization. Cash generated within a business unit may come to be symbolically linked with the power of the concerned manager. As such managing a Cash Cow business may be unwilling to part with the extra cash generated by his unit. Likewise, the workers of a Dog business which has been decided to be divested may counter strongly against changes in the ownership. They may believe the divestiture as a risk to their livelihood or security.

Thus, BCG analysis could throw up strategic options which may or may not be easy to implement.

BCG Modifications

It was in 1981 that the Boston Consulting Group realised the limitations of equating market share with the competitive strength of the company. They have acknowledged that the calculation of market share is intensely affected by the way the business activity and the total market are defined.

A broadly defined market will give lower market share, whereas a narrow market definition will result in higher market share resulting in the company as the leader. For instance, if we consider who has the largest share in digital camera market, company having maximum market share of handset becomes the leader, but when we define photographic equipment market, the leader will change. The concept of served market is ignored in BCG approach. It was, therefore, recommended that products should be rearranged according to the manufacturing process to highlight the economies of scale manufacturing, instead of stressing the market leadership.

On the other hand, BCG still uphold that for branded goods it is important to be the market leader so that the advantages of economies of scale and price leadership can be fully utilised. But they also concede that such advantages may still be achieved even if the company is not the largest producer in the industry. Some other versions of portfolio analysis have however developed much beyond these trivial alterations of BCG analysis.

Udo-Imeh, Philip T., et al. listed major criticism of the matrices[iii]. They observed that BCG matrix has had a larger share of the criticisms levelled against portfolio matrix in the literature of portfolio analysis. Faultfinders have criticized this strategic planning tool on the following grounds:

1. Thompson & Strickland, (1996) observed that a four-cell matrix on high-low classification system does not reveal the fact that many businesses are in markets with an average growth rate and have market shares that are neither high nor low, but in between or intermediate[iv]. They therefore wonder which cells these average businesses belong in the BCG classification scheme. Sharing this view are Hofer & Schendel, (1994)[v] who argued that the use of four-cell matrix ignored the fact that the world contains not only high and low, but middle position as well.

2. The association between market share and profitability does not always hold true. This link between market share and profit is based on scale economies and experience curve. But the "…profit potential of high market share businesses may be overestimated" (Hooley et al, 1998; p.63)[vi] if each SBU has "…its own manufacturing operation and operate on its own experience curve….uses a differentiated technology…. (and) has a different market structure" (Aaker, 1995; p.164)[vii].
Though the BCG share-profitability relationship may be theoretically supported, empirical evidence, however, questioned such link. Furthermore, the link between market share and profitability is premised on cost leadership strategy. But there are other ways an SBU can compete – differentiation strategy and focus strategy.

3. Simplicity, which is BCG utmost strength, is also its ultimate weakness. Assessing the attractiveness of a business unit based only on two indicators - market share and industry growth - is too simplistic and deceptive.
A lot of other relevant factors which determined market attractiveness (e.g. market size, industry profit margin, entry barriers) and competitive strengths (e.g. price competitiveness, product quality, geographical advantage) are not taken into account.

4. The BCG matrix mistakenly believes that SBUs are independent. A good strategic decision, therefore, on one business unit may be a bad one for another business unit, which invariably becomes dangerous for the company as a whole

5. Concentrating on market share and market growth rate may becloud marketing strategists from paying attention to fundamental issues like developing a sustainable competitive advantage. In the event of competitive retaliation to share gain, for example, the costs to the company may outweigh it gain.

6. The analysis is highly sensitive to how the market is defined (Doyle & Stern, 2006), which is often vague[viii]. Hax & Majluf (1990a, p.64) commented[ix]:
Relative market share compares a business's strength to its competitors. If the market is defined too narrowly the business invariably ends up as the leader of the segment; it is defined too broadly the business is unrealistically represented as weak. Proper market definition is a very subtle issue, and unfortunately, this approach to business analysis rests heavily on this difficult matter

7. The matrix assumes that all SBUs have the same lifecycle which is not the reality. Drummond & Ensor[x] (2001) suggested that, some Stars facing a short lifecycle, should be harvested than committing further investment.

8. The BCG matrix was developed principally to balance cash flow in a multi-business company. A contrary position to the advocacy of the BCG was given by Marakon, a management consulting firm. Marakon[xi], (1980) argued that "…ideal business portfolios are not necessarily balanced in terms of internal cash flow." The result of a study carried out by the company shows that "…a highly profitable portfolio may well be out of cash balance, while a rather poor portfolio may be perfectly balanced".

Despite all the criticism and limitations of the BCG matrix it gave guidelines for strategic decision making.

GE's Strategic Business Planning Grid

Directional Policy Matrix, General Electric (or McKinsey) matrix positions SBUs (Strategic Business Units) according to industry attractiveness as not merely the growth rate of sales of the product, but as a compound variable dependent on multiple factors influencing the future profitability of the business sector and the competitive strength of the SBU in that market. The typical indicators of industry attractiveness are market size, market growth, nature of demand (cyclical or continuous), level of competition, entry barriers, industry profitability, regulation etc.

These factors are either subjectively judged or objectively computed on the basis of certain weightages, to arrive at the Industry Attractiveness Index. The Index is thus based on a thorough environmental assessment influencing the sector profitability.
Factors determining Industry Attractiveness:
Typical weightage
1) Size of market 10%
2) Rate of growth of sales and cyclic nature of business 15%
3) Nature of competition including vulnerability to 15%
foreign competition
4) Susceptibility to technological obsolescence and new products 10%
5) Entry conditions and social factors 10%
6) Profitability 40%

To arrive at the Industry Attractiveness Index for the business under consideration, against each of these factors, the concerned business is rated on a scale of 1 to 10.

Factors determining Competitive Position or business strength of the Company as with Industry attractiveness, the business strength of the Company is analysed not only in terms of company's

market share, but also in terms of other factors. These factors are, sales force effectiveness, managerial competence, knowledge about market and customer, R & D, perceived quality of product, favourable geographical location and plant capacity, besides market share.

A typical scoring of company's Competitive Position would be as illustrated below:

Factor	**weightage**	**rating(1 to 10)**	**score**
1) Market Share and Capacity	20%	7	1.4
2) Growth Rate	10%	7	0.7
3) Location and Distribution	10%	5	0.5
4) Management Skill	15%	6	0.9
5) Workforce Harmony	20%	7	1.4
6) Technical Excellence including Product and Process Engg.	20%	8	1.6
7) Company Image	5%	8	0.4

The Industry Attractiveness Index is then plotted along the y – axis and divided into low, medium and high sectors. Correspondingly, the Competitive Position/business strength is plotted along the x – axis divided into Strong, Average and Weak segments.

For each business in the portfolio, a circle denoting the size of the industry is shown in the 3 x 3 matrix grid while shaded portion corresponds to the company's market share as shown in Figure

Company should rate each of its businesses on such a framework. If Industry's Attractiveness as well as company's Competitive Position is low, a no-growth red stoplight strategy is adopted. Thus, the company should divest or harvest the business. If for a business the Industry Attractiveness is medium and company's Competitive Position is high, a growth green stoplight strategy is evolved for further investment. But if a business has high Industry Attractiveness Index and low company's Competitive Position, this is branded as yellow stoplight business that may be moved either to growth or no growth category. Such grids are developed at different managerial levels. The final strategic decisions should be made by company's Corporate Policy Committee comprising the top management and senior executives of the business unit.

Industry Attractiveness Index

		High	Medium	Low
Business Strength	Strong	Investment & Growth	Selective Growth	Selectivity
	Medium	Selective Growth	Selectivity	Harvest / Divest
	Weak	Selectivity	Harvest / Divest	Harvest / Divest

This portfolio logic is also about understanding the relative strengths of a business in the context of its markets so as to make decisions about investment, acquisition and divestment. The company can improve its business strength by acquiring company which has the complementary features. These could mostly be horizontal acquisition. Horizontal acquisitions improve market share, offer geographical location offering strategic advantage, price competitiveness as a result of economies of scale, as well as managerial skills. For instance, Tata's acquisition of Tetley.

Similarly, if for lack of business strengths, a company may decide to divest. Tata's decided to divest TOMCO, which was acquired by HLL (now HUL).

Matrix does not assist in acquiring a division or a company. It can as well be used to consolidate market share by acquiring brands as well.

As discussed in integration strategies in Chapter II, Aditya Birla Group promoted UltraTech Cement when was looking forward to improving its business strength in the highly competitive cement business; acquisition of Dubai based ETA Star Cement Co improved its business strength by offering access to Middle East and Bangladesh leading to better market share, increased its production capacity.

Criticism of the GE matrix

1. As in case of the BCG matrix GE matrix also overlooks the mutual dependencies of the SBUs in a company's portfolio.
2. Similarly the definition of market, total market versus served market, the result of the analysis varies.
3. As multiple factors are considered while shaping both the indicators on which the matrix is based, aggregation of the indicators is difficult.
4. Hill & Jones (1989), noted that the GE matrix looks at the existing position of SBU but does not take into account how their future positions might change due to change in the industry. It does not also consider how their positions might change due to change in their lifecycle.
5. Lack of standardization with respect to list of critical external and critical success factors to be considered by business units, leads to variations and indistinctness in classification of business units.
6. Aaker (1995), observed that the selection and weighting of factors and the subsequent development of both firm's position and market attractiveness are subjective process. Individual bias and historical perspective cannot be ruled out in the process.

Despite all the criticism, GE 9 Cell Matrix gives significant insight about strategic decision making. Particularly the factors considered for the industry attractiveness index and the business strength have higher degree of application. For instance, a company can use these parameters to determine the countries attractiveness index (CAI) while going for overseas business. Companies get a lot of insight about the customer (prospect) attractiveness index (C/PAI) to make investments. The application of the matrix thus is not restricted to corporate level decision making but also at the business level or even at operational/functional level decision making as well. A sales person can make a decision about the customer/prospect using GE 9 Cell Matrix.

Arthur D. Little Company's Matrix

Arthur D. Little Company's matrix associates the phases of the industry life cycle with the business's competitive position. On the Y – axis, the businesses are categorized with respect to their competitive position: Weak, Tenable, Favourable, Strong, or Dominant. Along the Y – axis four stages in the industry life-cycle stage, Embryonic, Growth, Mature and Decline are marked as shown in Figure

		Industry Life Cycle Stage			
		Introduction / Embryonic	Growth	Maturity	Decline
Competitive Position	Dominant	Rapid development Act offensive	Rapid development Defend position Act offensive Cost leadership	Defend position Act offensive	Defend position Focus Consider retreat
	Strong	Rapid development Differentiation	Cut cost Differentiate Attack small competitors	Cut cost Differentiate Focus	Harvest
	Favourable	Rapid development Differentiation	Cut cost Differentiate Attack small competitors	Focus Differentiation Attack small competitors	Harvest
	Tenable	Market Development Focus	Maintain or retreat Identify a niche Aim growth	Maintain or retreat Identify a niche	Retreat
	Weak	Identify a Niche Follow the Competitor	Identify a niche Retreat	Retreat	Retreat

Source: Wilson, M.S. & Gilligan, C. (1992). Strategic marketing management: Planning. Implementation and control (2nd ed.). Elsevier Butterworth-Heinemann, p.318

A start-up should identify a niche in the embryonic stage of industry life cycle to build. In the embryonic stage experience curve is irrelevant as no player has experience with the technology or the industry. As the industry lifecycle moves to the next stage players with tenable and higher business strength can exploit the situation better by virtue of their presence in the industry and the new player finds it difficult to match their resources and business strengths. Various strategic options open to companies with various business strengths and at different industry life cycle stages are listed in the table above as suggested by Wilson (1992).

The Arthur D Little Matrix in Embryonic and Growth phases, recommends the businesses to adopt build strategy, except when the competitive position is weak. Matrix recommends Hold strategy for Mature stage businesses with dominant to favourable strength. Matrix proposes harvest strategy for businesses in Decline stage, with Strong or Dominant position. For weaker businesses in Mature/Decline stage unacceptable ROI is marked.

Qualitative Factors

A critical part of the strategy evaluation process is measuring the organizational performance. The process has qualitative as well as quantitative aspects.

Seymour Tilles[xii] (David, 1997), has suggested six qualitative questions that are useful in evaluating strategies.

They are:

Making an Evaluation

Is your strategy right for you? There are six criteria on which to base an answer. These are:

1. Internal consistency.
2. Consistency with the environment.
3. Appropriateness in the light of available resources.
4. Satisfactory degree of risk.
5. Appropriate time horizon.
6. Workability.

Some additional factors also have an impact on strategy evaluation. They can be:
1) How good is the firm's balance of investments between high-risk and low-risk projects?
2) How good is the firm's balance of investments between long-term and short-term projects?
3) To what extent are the firm's alternative strategies socially responsible? etc.

The evaluation of Corporate Strategy may not have a uniform approach. Every organization may device its own approach to evaluation. There are no unconditional answers as to the appropriate evaluation principles. However, there are three basic questions to ask in strategy evaluation[xiii]:

Is the existing strategy any good?
Will the existing strategy be good in the future?
Is there a need to change a strategy?

To know whether the current strategy is suitable and advantageous to the organization more specific description may be needed.

Seymour Tilles in his article on the qualitative assessment of organizational performance has suggested several specific questions to be asked for evaluation. These questions and the specification are as follows:

1. ***Is the strategy internally consistent?***
   This question evaluates the collective effect of several strategies on the achievement of corporate objective. According to Tilles, in a well-worked-out strategy, each policy fits into an integrated pattern. It should be judged not only in terms of itself, but also in terms of how it relates to other policies which the company has established and to the goals it is pursuing.

The principle of internal consistency is particularly significant one for evaluating strategies because it identifies those areas where strategic choices will ultimately have to be made. An inconsistent strategy does not inevitably mean that the company is at present in trouble. But it does mean that if management retains its appreciation on a particular area of operation, it may well be required to make a choice with very little time either to explore or to formulate attractive alternatives.

Internal consistency of every strategy has to be evaluated at every stage of organizational growth. For instance, at the time of acquisition of ETA Star Cement CO by UltraTech Cement[xiv], Kumar Mangalam Birla, Chairman Aditya Birla Group said, "The acquisition is in line with our long-term strategy of expanding our global presence across businesses and consistent with our vision of taking India to the world."

2. ***Is the strategy consistent with the environment?***
   The organizations strategies have to resonate with its customers as well as prospects with respect to product policy, price policy, or its communication policy. Even organizations policies with respect to government contracts, collective bargaining, foreign investment, and so forth are manifestations of relationship with other groups and forces. Organizations consistency with the environment is an acid test of the strategy.

As discussed in the environmental analysis, there are two types of environment viz Internal and External. As every organization faces ever changing environment, developing strategies for long run success management must continuously evaluate the extent to which policies established earlier are consistent with the current environment; and whether the existing policies take into account the environment organizations is likely to face in future. Static and dynamic are the two aspects of consistency with the environment. The static aspect environmental consistency implies evaluating the efficacy and relevance of policies in the current environmental conditions. The dynamic aspect of consistency with the environment indicates evaluating the efficacy of policies with respect to the environment as it appears to be changing. A viable strategy is the one which ensure the long-run success of an organization.

Nestle, a marketer of convenience food, having realized, and observed by Sangeeta Talwar[xv], that "The thing you change last is what you eat." She adds, "We are not attaching any basic culinary habit. People change slowly. It's a two-way process. There's the environment and then there's what the company does." Nestle adapted to the Indian kitchen, especially to be able to sell in small towns. Nestle also ensured that the housewife doesn't feel threatened by an over-convenient ready-mix that could rob her of her traditional source of praise, or a daily-eat cereal that could turn her redundant at breakfast. "She wants to be involved with food consumption in the house," observed Talwar.
Nestle thus identified both the faces of changing environment. Static, involvement of the housewife in kitchen, and shifting culture towards convenient food.

3. ***Is the Strategy Appropriate in View of the Available Resources?***
   One of the key questions every organization has to answer and as we discussed in the last chapter, we consider this as a key to formulate strategies. One of the key ingredient of organizations internal environment is resources which determine the strength of the organization and the absence of which results in weakness of the organization. To achieve any objective more so a corporate objective resources are required.

Tilles included money, competence, and facilities; we considered relationships as well as a key resource. Though, as discussed earlier, these by no means complete the list. For instance, we had considered brand name as a major resource. While formulating strategies management must consider two basic issues in relating strategy and resources. These are:

What are our critical resources?
Is the proposed strategy appropriate for available resources? and
At how the criterion of resource utilization can be used as a basis for evaluating strategy.

Critical Resources

A "critical resource" is vital strategic features of resources and they represent action potential. Taken collectively, a company's resources characterize its ability to respond to challenges and opportunities that may be observed in the environment.

A resource may be critical in two senses from an action-potential point of view,
1. As the factor limiting the achievement of corporate goals; and
2. As that which the company will exploit as the basis for its strategy.

The three resources most frequently identified as critical are money, competence, and physical facilities.

Money

Because of its paramount flexibility of reacting to the occasions as they arise, money is a predominantly valuable resource. Money may be pondered as the “safest” resource, as it permits to choose among the extensive range of future options.

Competence

Competence is usually not unidimensional. Organizational competence is multi-dimensional. Competence helps organizations sustain over a period of time. The scale of competence of a given organization is not identical across the wide-ranging skills essential to be the in business. Some companies are particularly good at marketing, others especially good at engineering, still others depend primarily on their financial superiority. “Distinctive competence” is the one at which company is particularly good at[xvi]. While formulating a strategy, management must judiciously evaluate its own skill profile in order to determine where its strengths and weaknesses lie. It must then adopt a strategy which makes the greatest use of its strengths.

Physical facilities

The strategic impact of physical facilities as a resource is often misinterpreted. For technical men who are entranced of physical amenities as the palpable representation of corporate entity. The financial men view physical amenities as uninvited but essential restricting part of the company’s fund. The latter group is overriding. Return on investment has come out as practically the solitary standard for determining whether or not a particular facility should be acquired, in large number of organizations.

The assessment of a company’s physical facilities as a strategic resource necessarily should think through the relationship of the company to its environment. Facilities have no core value for their own sake. The value of physical facilities to the company is either because of its geographical location relative to markets, to sources of labour, or to raw materials; or in their efficiency relative to prevailing or imminent competitive installations. The essential considerations in any decision regarding physical facilities are an estimate of changes likely to come about in the environment and a prediction about what the company’s responses to these are likely to be.

Physical facilities have implication primarily in relationship to overall corporate strategy. It is, therefore, only in relationship to other aspects of corporate strategy that the acquisition or disposition of physical facilities can be determined. The total investment required and the projected return on it have a place in this determination—but only as an indication of the financial implications of a particular strategic decision and not as an exclusive criterion for its own sake.

When AV Birla Group acquired the L&T’s cement business, the group had changed the brand name from L&T, so the brand image, legacy was not of any use in time to come. But, the complementary nature of plant location with respect to existing locations of groups plants was a decisive factor. In cement manufacturing transportation cost of raw material as well as finished goods is very high. A geographical location of the plant proximal to raw material and market saves these transportation costs. AV Birla group was keener on having these physical facilities than the brand name to consolidate its cement business in India.

4. ***Does the Strategy Involve an Acceptable Degree of Risk?***
   When taken together, strategy and resources, fix the degree of risk which the company is assuming. This is a critical managerial choice. Every organization must decide what amount of risk it can take and live with. Organization can use multiple techniques to evaluate the degree of risk associated with a particular strategy.

Mathematical models can help an organization for selecting between a variety of strategies where you are willing to assess the payoffs and the probabilities related with them. However, the concern not with these quantitative traits but with the detection of some qualitative factors which may assist as a rough basis for evaluating the degree of risk intrinsic in a strategy.

These factors are:

1. The amount of resources (on which the strategy is based) whose continued existence or value is not assured.
2. The length of the time periods to which resources are committed.
3. The proportion of resources committed to a single venture.

The greater these quantities, the greater the degree of risk that is involved.

Uncertain Term of Existence

As the strategy is based on the resources, any resource may constitute a danger to the organization if it disappears before the payoff has been obtained. For several reasons the resources may disappear. The resource may lose its value. This commonly takes place to such resources such as physical facilities and product features. With continuously advancing technologies and better and faster computers, existing computers lose their value quickly. They may be accidentally destroyed. The supremely susceptible resource here is competence.

For many companies, the prospect that extremely important resources may lose their value shoots not so much from internal changes as from alterations in the environment. For instance, if a company develops a new product with high R&D costs, invest significant amount of money in marketing of the product and competitor develops better product for the same purpose, to make the matter worst the competing product is economical as well. The company's all expenses right from R&D, marketing, distribution all are now of no value.

Duration of Commitment

Financial analysts repeatedly look at the ratio of fixed assets to current assets in order to evaluate the degree to which resources are committed to long-term programs. This may or may not give an acceptable answer. How important are the assets? When will they be paid for?

The cause of the risk grows as the time for payoff increases is the intrinsic uncertainty in any undertaking. Resources dedicated over long term extents the company's susceptibility to changes in the environment. Since the complexity of foreseeing such changes escalates as the time span increases, long-term projects are fundamentally riskier than are short ones. Particularly for companies facing unstable environments. In today's context, because of technological, political, or economic swings, most companies are distinctly in the category of those that face major turmoil in their corporate environments. The company fostering its future around technological equipment, the company selling to select segments, the company investing in underdeveloped nations, the company selling to the Common Market—all these have this prospect in common.
The corporate environment is becoming increasingly unstable is the reality and time span of decision is increasing. This warrants that the corporate decision makers should be more considerate to external trends today.

Size of the Stakes

The magnitude of the consequences is more pronounced if company commits more resources to a particular strategy. If the strategy is successful, the payoff will be great—both to managers and investors. If the strategy fails, the consequences will be dire—both to managers and investors. Thus, a critical decision for the executive group is: What proportion of available resources should be committed to a particular course of action?

This decision may be managed in a variety of ways. For instance, faced with a project that requires more of its resources than it is willing to commit, a company either may choose to refrain from undertaking the project or, alternatively, may seek to reduce the total resources required by undertaking a joint venture or by going the route of merger or acquisition in order to broaden the resource base.

The amount of resources management stands ready to commit is of particular significance where there is some likelihood that larger competitors, having greater resources, may choose to enter the company's field. Cable operators entered into the field as there were low entry costs. But the moment larger players entered the market and DTH service started, cable operators found it difficult to match larger competitors.

It is not that the "best" strategy is the one with the least risk. High payoffs are frequently associated with high-risk strategies. Moreover, it is a frequent but dangerous assumption to think that inaction, or lack of change, is a low-risk strategy. Failure to exploit its resources to the fullest may well be the riskiest strategy of all that an organization may pursue, as Montgomery Ward and other companies have amply demonstrated.

5. Does the Strategy Have an Appropriate Time Horizon?

A workable strategy not only divulges what goals are to be achieved; it articulates approximately about *when* the aims are to be accomplished. A substantial part of every strategy is the time perspective on which it is established.

Like resources, goals, too have time-based utility. Various activities undertaken by an organization, such as, a new product developed, a plant put on stream, a degree of market penetration, become noteworthy strategic objectives only if achieved by a certain time frame. Entire strategic significance may be lost if these activities are delayed.

Organization must establish goals well in advance to allow the organization to adjust to them. In selecting a fitting time horizon, organization must pay careful attention to the goals being chased, and to the particular organization involved. Conventionally large organizations encountering highly unstable environment have to further extend the time horizon as their adjustment time is longer. Large organizations have to plan far ahead compared to smaller organizations. The implication of planning for the small but growing organization has often been ignored. As the companies grow bigger, they must not only change the way they operate but also gradually thrust into the future its time horizon. On a day to day basis, while supervising operations managers spend most of the time on key business results, budgetary control and performance. They fail to spend sufficient time on strategic issues like analysis of key resources, corporate direction, creating vision.

Organizations change slowly and need time to work through basic adaption in its strategy. Thus, there is a substantial gain in an assured consistency of strategy continued over long periods of time. Companies which do not carefully formulate strategies well in advance face a great danger as they are prone to fling themselves to disorder by frequent sweeping changes in policy.

If the time horizon is greater, an organization has a wider range of strategies to choose from. But, if the time horizon is short, goals have to be achieved in a relatively short time, then M&A are inevitable.

6. Is the Strategy Workable?

The first question that comes up while formulating a strategy is asking: Does it work? Further deliberation should divulge the criteria. What is the evidence of a strategy "working"?

The combined influence of two critical factors is measured by quantitative indices. The two critical factors are:
The strategy selected and
The skill with which it is being executed.

In the event of failure to attain projected results, both of these influences must be critically scrutinized. While selecting a strategy to be employed organization must take into account its business strength in executing the strategy.
Marico's strategy of acquisition of Paras Pharmaceuticals' personal care business from the UK consumer goods giant Reckitt Benckiser helped it make inroads into male grooming market. Marico's dominant markets for long time have been edible oil (Saffola) and hair oil (Parachute) and a smaller extent, the lice treatment category (Mediker). The dominance in the market reflected its skills in effectiveness in selling. With one acquisition Marico gained access to skin creams (Borosoft and Recova), lip balms (Dr Lips), hair gels (Set Wet), hair serums (Livon), and deodorants (Zatak). Strategy of acquisition allowed company to participate in high-growth categories[xvii].

Seymour Tilles concludes[xviii]. If a strategy cannot be assessed by results alone, there are some other indications that may be used to judge its influence to corporate progress:

- The degree of consensus which exists among executives concerning corporate goals and policies.
- The extent to which major areas of managerial choice are identified in advance, while there is still time to explore a variety of alternatives.
- The extent to which resource requirements are discovered well before the last minute, necessitating neither crash programs of cost reduction nor the elimination of planned programs. The widespread popularity of the meat-axe approach to cost reduction is a clear indication of the frequent failure of corporate strategic planning.

Changing micro and macro factors make it mandatory for every organization to evaluate its strategy on regular basis. There can be various questions which can have an impact on strategy evaluation. After assessing all the situations, the final step is to take corrective actions to reposition the firm.

Balanced Score Card (BSC)

Organizations use certain parameters as a tool for measuring performance. Performance evaluation and control processes are important for continuous improvement. Balance Score Card (BSC) is a measure to evaluate performance of a business and thereby evaluating the strategy.

Performance measures are the indicators of organizational achievement. To achieve organizational objectives care has to be taken to ensure that the indicators of organizational achievement are understood by employees at all levels of the organization. Every organization has its set of performance measurement framework.

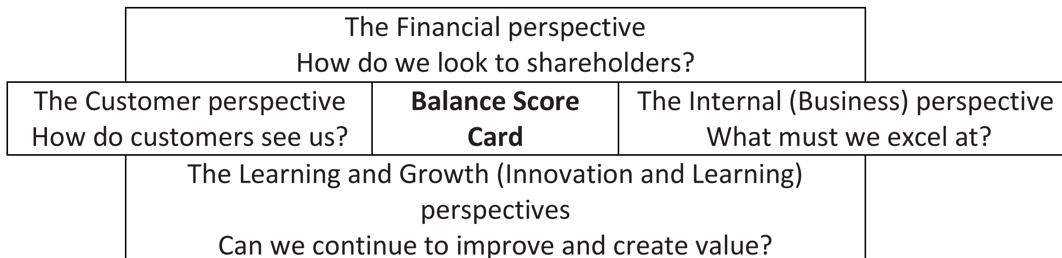
Strategic management as a whole new concept emerged in 1990s. Around same time Dr. Robert Kaplan (Harvard Business School) and David Norton (Balance Score and Collaborative) developed a new approach to strategic management and named it as 'Balanced Scorecard'. The concept attempts to provide a clearer prescription as to what companies should measure in order to 'balance' the financial perspective (www.hrfolks.com).

Organizations need feedback around the internal business processes and external outcomes in order to improve strategic performance and results continuously. The BSC is a management system that enables organizations to spell out their vision and strategy and convert them into action.

According to Kaplan & Norton "The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate strong for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation." It is imperative to note that according

to BSC we view the organization from four perspectives. The Balanced Scorecard Links Performance Measures:

The Financial perspective: How do allwe look to shareholders?
The Customer perspective: How do customers see us?
The Internal (Business Process) perspective: What must we excel at?
The Learning and Growth (Innovation and Learning) perspectives: Can we continue to improve and create value?



The financial perspective relates to the handling and processing of financial data. The customer perspective aims at satisfying the customers' needs and wants as the customer satisfaction is one of the performance indicators for any organization. The business process perspective denotes paternal business processes. Which includes the strategic management process. The learning and growth perspective comprises employee training and corporate cultural attitudes which are related to both individual and corporate self-improvements.

For instance, in a highly competitive air cooler market, a manufacturer will focus on reducing cost and optimizing the production facilities. A good trade relation is important for point of purchase visibility and promotion. A good post sale service to customer, an insight in understanding their problem of storing the product when not in use ensures better customer satisfaction. Similarly training employees for promoting product and offering better customer services are key to growing revenue.

The Financial perspective:

For an organization, usual financial aspirations are profitability, growth, and shareholder wealth etc. Financial performance measures point toward whether the company's strategy, implementation, and execution are participating to bottom-line enhancement. The other measures are cash flow, success by quarterly sales growth and operating income by division, and prosperity by increased market share by segment and return on equity.

In contemporary business environment, should the senior managers pay attention to short-term financial measures like quarterly sales and operating income? Financial statements are well-documented with respect to their inherent limitations, their backward-looking focus, and their inability to reflect contemporary value-creating actions. Shareholder value analysis is based on cash flow rather than on the activities and processes that drive cash flow.

It is also observed that the requisites of competition have altered and that conventional financial measures do not increase customer satisfaction, quality, cycle time, and employee motivation. In conventional view, financial performance is the result of operational accomplishments, and financial success should be the rational outcome of doing the basics well. By making basic improvements in company's operations, the financial numbers will take care of themselves.

Claims that financial measures are redundant are incorrect for at least two reasons. A well-designed financial control system can actually enhance rather than inhibit an organization's total quality

management program. Notably, the alleged connection between enhanced operating performance and financial success is actually quite unsubstantiated and uncertain. Introduction of new products and an inability to develop new market, new and perhaps more demanding customers prevent the organizations from realizing the benefits of its manufacturing achievements. The operational achievements are real, but the organizations may fail to capitalize on them.

The balanced scorecard translates a company's strategy into particular quantifiable goals. Companies have to follow up their operational efficiencies with next round of actions. Quality and cycle-time improvements can create excess capacity. Organizations should be prepared to either put the excess capacity to work or else get rid of it. The excess capacity must be either used by improving revenues or eliminated by cutting expenses if operational improvements are to be reflected in the bottom line.

Customer Perspective:

Customers' interests have a tendency to fall into four categories: time, quality, performance and service, and cost. Lead time refers to the time required for the company to meet its customers' needs. For existing products, lead time refers to the time the company receives an order to the time it actually delivers the product or service to the customer. For new products, lead time refers to the time to market, or time required to take a new product from idea screening stage to the commercialization. Quality measures the defect level of incoming products as observed and assessed by the customer. Quality could as well refer to on-time delivery, the precision of the company's delivery estimates. The combination of performance and service measures how the company's products or services contribute to creating value for its customers[xix].
Companies should formulate goals for time, quality, and performance and service and then translate these goals into specific measures.

Companies have to be considerate to the cost of their products as well apart from time, quality, and performance and service. The supplier-driven costs span from ordering, scheduling delivery, and paying for the materials; to receiving, inspecting, handling, and storing the materials; to the scrap, rework, and obsolescence caused by the materials; and schedule disturbances from improper deliveries. An exceptional supplier may charge a higher price for products than other vendors but on the other hand be a lower cost supplier because it can deliver defect-free products in precise quantities at accurate time straight to the production process and can minimize, through electronic data interchange, the administrative irritations of ordering, invoicing, and paying for materials.

Reducing customer pain points increases the value of goods and services that an organization offers to its customers.

The Internal (Business Process) perspective:

Organization while reducing customer pain points should ensure that the process of reducing customer pain point is not a cost centre for the organization, not affecting its bottom line adversely. Exceptional customer performance comes from processes, decisions, and actions taking place all throughout an organization. Organization needs to focus on those crucial internal operations that facilitate it to satisfy customer needs. This part of the balanced scorecard gives managers that internal perspective.

In order to realize goals on cycle time, quality, productivity, and cost, organization must formulate measures that have some bearing on employees' actions. As large part of the action takes place at the department and workstation stages, organizations need to breakdown overall cycle time, quality, product, and cost measures to local stages. This is necessary to link top management's judgment about key internal processes and competencies to the actions carried out by individuals that affect overall corporate objectives. These linkages make sure that employees at lower levels in

the organization have clear objectives for actions, decisions, and improvement activities that will play a part to the company's overall mission.

Companies should channelize its efforts to identify and measure its core competencies, the decisive technologies needed to safeguard, improve market leadership. Companies need to determine what processes and competencies they have to stand out at and indicate actions for each.

Blue Star to keep in tune and adapt with the changing market conditions, reinvented itself again and again. Strengthening its core and becoming more customer-centric. It reduced its cost structure and maintained its leadership position as a B2B company. McDonald's has been working with Blue Star since inception of McDonald's (West and South) in 1996[xx]. Amit Jatia, Vice-Chairman, Westlife Development, the parent company of Hardcastle Restaurants, which runs McDonald's noted, "Blue Star supplies air-conditioner for the restaurants and cold rooms. The company has an efficient and responsive sales service team, which led us to give all our new restaurants business to them. What sets them apart is that they are cost-competitive, while maintaining high quality standards. They have a highly competent and accessible senior technical management team which is process-and-solutions-driven. Blue Star invests in their people by training and encouraging them to take up dealerships thus developing their entrepreneurial skills. We are proud to work with a completely indigenous company like Blue Star, which is on a par with global giants".

Anuj Agrawal, head, infrastructure management & services group, ICICI Bank and ICICI Foundation observed, "They (Blue Star) have been one of our partners for supply & comprehensive maintenance of air-conditioning equipment for our branches and offices, which are spread across the length and breadth of the country. Their project management and timeliness of service ensures that our branches/offices get set up on time, and also maintain the right ambient temperature for comfort and efficiency".

The Learning and Growth (Innovation and Learning) perspectives:

Rivalry among the firms is getting more and more intense. Global competition necessitates that organizations make continual developments to their present products and processes and have the competence to launch completely new products with long-drawn-out capabilities. The customer-based and internal business process actions on the balanced scorecard ascertain the parameters that the organization deems most important for competitive success. But the customer is a moving target and the targets for success keep moving.

A company can penetrate new markets, increase revenue of margins, launch new products, create more value for customer and improve operating efficiencies by virtue of its ability to learn, improve and innovate. Organizations have to focus on processes as well apart from product development and operating efficiencies.

Camlin[1], was initially making inks and selling them to nearby schools. Favoured by the masses, prospered with its products which included ink tablets, inks, office adhesives, sealing wax, school chalks, pain balm etc. Apart from expanding its product range, Camlin wisely invested in creating an impressive distribution network to take its products across the length and breadth of the country.

In 1960s, Camlin realised that while it was solidly rooted in its niche segment, future growth would only be possible by expanding its portfolio and going in for value-added, high-margin products – the untapped market for art materials. Company forayed into new territories of art material with products such as artists' and students' oil and water colours, poster colours, geometry boxes, wax crayons, oil pastels and water markers. Camlin soon became a market leader in stationery and art materials, on the back of consistent product quality extensive distribution network and innovative

[1] In May 2012 Japanese stationary major Kokuyo Co. Ltd acquired a 50.74% stake in Camlin, a leading Indian manufacturer by then

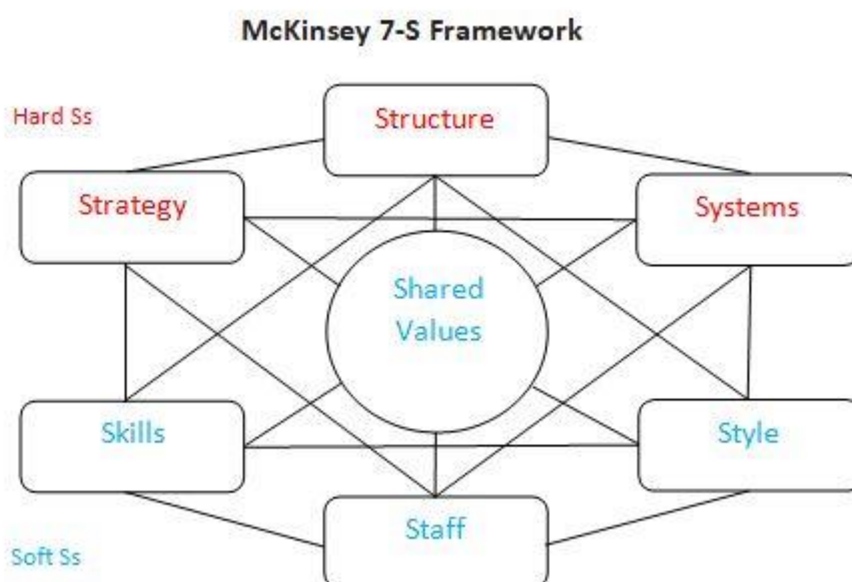
marketing techniques like participation in internal trade shows and exhibitions and conducting painting contests and workshops[xxi]. Camlin organized the 'All-India Camel Colour Contest' for children and Professional-level competitions for budding artists and hobby painters through its Art Foundation.

BSC is a strategic performance management system for the organization. By linking the financial, customer, internal process and innovation, and organizational learning perspectives, the balanced scorecard is also a communication tool to make strategy clear to all those who are working in the organization and tries to balance the financial and non-financial aspects of the organization. This insight can help organizations go beyond conventional philosophies about functional barriers and ultimately lead to improved decision making and problem solving. BSC is all about doing right thing at right time, but differently.

McKinsey 7-S Framework

Although structure is a significant variable in the management of change, organizational change is not simply a matter of structure. Strategy too is a critical aspect, there is no simple relationship between strategy and structure. According to Waterman et al., effective organizational change may be understood to be a complex relationship between strategy, structure, systems, style, skills, staff and super ordinate goals.[xxii]

The framework suggests that there is array of factors that impact an organization's ability to change and its appropriate mode of change. Because of the interconnectedness of the variables it would be challenging to make substantial advancement in one area without making headway in the others as well. There is no starting point or implicit hierarchy in the shape of the diagram, and it is not apparent which of the seven factors would be the motivating force in changing a particular organisation at a certain point in time. The decisive variables could be different across organizations and in the same organization at different points of time.



Super ordinate goals, shared goals, refer to "…a set of values and aspirations that goes beyond the conventional formal statement of corporate objectives. Super ordinate goals are the fundamental ideas around which a business is built. They are its main values. They are the broad notions of future direction. That is the way the top management as a team wants to express itself. Examples would

include Theodore Vail's 'universal services' objectives, which have dominated AT&T of USA; the strong drive to 'customer service' which guides IBM's marketing; GE slogan, 'progress is our most important product,' which encourages engineers to tinker and innovate throughout the organization; Hewlett-Packard's 'innovative people at all levels in organization', Dana's obsession with productivity for the total organization, not just for the few at the top, and 3-M's dominating culture of 'new ventures'. Super ordinate goals may be compared with basic premises in a mathematical system. They are the basis on which the system is logically build but are not themselves logically derived…"[xxiii]

The super ordinate goals are articulated at the uppermost levels of concept and may not mean very much to outsiders who are not very acquainted with the organisation. But they have remarkable importance for those inside the organization. Super ordinate goals when appropriately expressed can offer a robust foundation for the stability of an organisation in a rapidly changing situation by providing a basic meaning to people working for the organisation.

Organizational structure refers to the relatively more durable organizational arrangements and relationships. It prescribes the formal relationships among various positions and activities. Arrangements about reporting relationships, how an organizational member is to communicate with other members, what roles he is to perform and what rules and procedures exist to guide the various activities performed by members are all part of the organizational structure. Organizational structure performs four major functions…

1. It reduces external uncertainty through forecasting, research and planning in the organization
2. Tt reduces internal uncertainty arising out of variables, unpredictable, random human behaviour within the organization through control mechanisms
3. It undertakes a wide variety of activities through devices such as departmentalization, specialisation, division of labour and delegation of authority
4. It enables organization to keep its activities coordinated and to have a focus in the midst of diversity in the pursuit of its objectives. [xxiv]

Organizational structure must be designed in accordance with the needs of the strategy. Changes in an organization's strategy give rise to administrative problems which cannot be resolved with the help of the existing structure, thus necessitating a new structure. [xxv]

7-S framework suggests link between strategy and structure, is an important addition to the organizational tool kit, seldom offers exclusive structural solutions. Quite often the main problem in strategy relates to execution.

System

In the 7 – S framework, system refers to all the rules, regulations, and procedures, both formal and informal that complement the organizational structure. System comprises of production planning and control systems, cost accounting procedures, capital budgeting systems recruitment, training and development system, planning and budgeting systems, performance evaluation systems, etc. Time and again changes in strategy may be employed with some changes in 'system' rather than in the organization's structure. Changes in organizational structure, for instance from functional to divisional or functional to matrix or divisional to matrix would also necessitate changes in the systems in various degrees.

Style

Organizations differ from each other in their styles of working. Style is one of the seven levers which top management can use to bring about organizational change. According to the framework, style of an organization becomes evident through the patterns of actions taken by members of the top

management team over a period of time. The McKinsey framework considers 'Style' as more than the style of top management. Offering the example of an organisation which acquired another company after a thorough analysis but failed to make it successful. Waterman, et al., contended that the failure was due to the mismatch of corporate culture of the acquired organization with that of the parent. They observe "…The acquisition had failed because it simply wasn't consistent with the established corporate culture of the parent organization. It didn't fit their view of themselves. Their will to make it work was absent. Time and again strategic possibilities are blocked – slowed down – by cultural constraints…"[xxvi] In the McKinsey framework, aspects of organizational culture also seem to be encompassed by the term 'style'.

Staff

In the McKinsey 7 – S framework the term 'staff' has a specific connotation. Staff refers to the way organizations introduce young recruits into the mainstream of their activities and the manner in which they manage their careers as the new entrants develop into future managers. They found that superbly performing companies paid attention to the development of managers. Top managers took extraordinary care in moulding the young persons into future managers.

Skills

Waterman, et al., consider 'skills' as one of the most critical traits or capabilities of an organization. The term skills comprise those characteristics which most people use to describe a company. Skills in the framework are the distinctive competence. The leading skills or the distinctive competence of an organization are part of the organizational character. Organizations have strengths in a number of areas but their significant strengths or dominant skills are few. These are developed over a period of time and are a result of the interface of a number of factors; performing certain tasks successfully over a period of time, the kind of people in the organization, the top management style, the organization structure, the management systems, the external environmental influences etc. Thus, when organizations make a strategic shift it becomes necessary for them to consciously build new skills.

Structure for Evaluation

Effective implementation of strategy warrants effective systems and structure. Organizational growth can be achieved by executing strategy to improve quality, quantity and being quick, the three Qs. Structure should also aim at improving the three Qs. Organization should also look at improving deployment of resources R1 the 4Ms (money, material, machine and manpower) and R2, the relationships.

Structure, one of the 7S in the McKinsey framework and a hard factor. Structure represents the formal relation within the business divisions and units, the way they are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

It is necessary that someone is made exclusively responsible for carrying out the operations for effective implementation of strategy. The formal relationship formed through the structure of an organization makes it possible to create responsibility centres.

The responsibility centres should have full autonomy to take operational decisions relevant to their businesses. To an extent the responsibility centres will be restricted in taking decisions relating to functional policies as those decisions will not be within their prerogative. There can be several types of responsibility centres. In an organization which is concerned with profit, there could be profit centre, there could be revenue centres or there could be expense or cost centres.

Profit centre managers have full autonomy to decide their level of sales, margins and production, what to make and what to buy, etc. and are responsible for the profits. Despite being responsible for

profit, at times, they do not have authority over financial policies such sources of financing and basic personnel policies of the profit centre. The revenue centre heads are held responsible for making the revenue, within the approved costs and cost centre heads are responsible for a definite level of production or activities.

In the functional structure the only person who can be held responsible for profits is the chief executive, functional heads the very next level below CEO do not have operational jurisdiction over issues related to other functional areas, though they influence profits of the firm. Functional structure of the organizations has revenue and expense centres. The divisional structure empowers the divisions to make the key operational decisions under their jurisdiction. Hence, they can have profit centres for the success of strategy. The structure facilitates keeping of records for managerial accounting, which is very crucial for strategic decisions and strategy assessment, and acquiring or divesting a new product or a business. To implement strategy of growth through expansion or diversification, the most appropriate structure is divisional structure to create profit centres in the form of division. Functional executives can be effectively groomed to be general managers in divisional structure, though it is at the cost of diluting the functional specialisation to some extent. The holding company-subsidiary structure also offers parallel benefits from assessment and control point of view; however, it confines the scope of business portfolio management as different companies may be serving to different businesses.

In the product divisional structure little flexibility is available to the divisions involved in the intermediate stages of production and all of them stand or fall together with changes in environment. Thus, the product divisional structure does not provide any significant advantage for growth through expansion in the same business or through (backward/forward) vertical integration. It may be more appropriate in such cases to make the marketing divisions as revenue centres and production divisions as expense centres. The situation may be different if the intermediate product lines too, have a significant market of their own. In such cases, making all such divisions as profit centres may be advisable.

Evaluation System in A Multi-Business Company

In a multi-business company, inter-business unit transfers of goods and services makes identification of key success factors and their exact trend values a very complex process. One of the reasons for the complexities is the transfers of goods and services within the organization take place at price levels which might suppress the true profitability of the supplying division. In such cases transfer price adjustments are carried out for the purpose of fair evaluation of each unit.

A system of transfer pricing needs to be developed for a multi-product/multi-business company, having several divisions as profit centres, there may be several products/components which are manufactured and sold by one division and at the same time required by others for their product/business. In such cases a system of transfer pricing needs to be developed for transfer of products/components from one division to another, otherwise a situation may arise when two divisions may take decisions which may be against the overall interest of the company. For instance, consider two divisions A and B as profit centres. Division A produces a component which is a monopoly item and can fetch a margin as high as Rs. 30. The component price is say Rs. 100. Division B needs this component for one of its products. However, if it gets it at a price of Rs. 100, it cannot earn any profit on its product. Division A is not prepared to reduce its price to Rs. 85 as it cuts its margin by Rs. 15 to give 10% return on sales to Division B. Division B is left with two options to ensure 10% cut off return for its operations, either to drop the product or invest in facilities. The minimum size of facilities is far in excess of the requirements of the product in Division B, hence it will have to sell in open market.

The prices in that case are likely to fall to Rs. 75 a piece. Division B may also not like to divert its energies to sell the component separately. It will, therefore, decide to drop the product. The actions

of Divisions A & B in maintaining profitability of their respective divisions thus lead to loss to the company as a whole on the margin that was available to it on product B, if only Division A had reduced the price a bit.

Similar would be the case if Division A has created capacity to meet the requirements of Division B. However, at a later stage, a situation of glut appears and the other suppliers' resort to heavy price cutting, and B decides to purchase from open market at a price which A cannot afford to supply without running into losses. The situation may be even more damaging to the company, if the price reduction by the other supplier was to force some of the manufacturers (like Division A) to close the manufacturing facilities for the component and to rise prices again after the closures. Not only the company as a whole but even Division B will be a loser.

It would be realised that there are two issues involved in situations of transfer pricing. Firstly, the sourcing decision, i.e., whether the product is to be bought/sold by a division internally or externally. In view of profit centres as independent responsibility centres, normally the divisions should be allowed to decide it themselves. But a situation may arise when the intervention of top management may be necessary to give sourcing decisions to ensure that buying/selling by divisions is in the interest of the company. The second question is what should be the (transfer) price for the transfer of goods from one division to another.

It should be remembered that the purpose of transfer pricing is not to encourage inefficient operation by dictating a transfer price that will fetch a profit, but to ensure a fair price to the concerned divisions in the absence of an open and free competitive market price. That unifies the interests of the divisions with the interest of the company. Thus, whenever market place prices are available and when the divisions can meet all their requirements of buying and selling there may be no need of intervention. Indeed, even when these conditions do not prevail, the level of inter-division transfer may not be significant or no intervention may be necessary/ advisable.

Characteristics of an Effective Evaluation Strategy

There are certain basics which should be followed for making the strategic evaluation effective. These characteristics are as follows:

1) The activities of evaluation must be economical.
2) The information should neither be too much nor too little.
3) The control should neither be too much nor too less. It should be balanced.
4) The evaluation activities should relate to the firm's objectives.
5) It should be designed in such a manner so that a true picture is portrayed.

There can be many more such requirements. Large organizations require a more elaborate system than the smaller ones.

All frameworks have their own advantages and limitations. Thus, we recommend a combination of frameworks to evaluate a strategy. Moreover, for the organization growth we have recommended we have proposed the 3Q = 3S + 2R model.

Each framework offers an insight in to the one of more of 3Q, quality, quantity, and quickness and 2Rs. But no standalone model has been able to provide the answer organizations are looking forward to. We discuss what strategies an organization can employ to improve quality, quantity and quickness, similarly what structures are needed to improve the quality, quantity, and quickness. What structure an organization should build to improve on the 3Qs, and what systems the organization should keep in place the to improve the 3Qs.
The other two factors which will contribute are the relationship and the resource.

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Chapter XIII

Organizational growth factors

Adam Smith[i] has famously said, "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer."

Consumption depends on the consumer. Consumer does not necessarily buy the best, or reject the worst. Consumers purchase what offers them value. Value is always in the eyes of the beholder. Organization has to ensure customer satisfaction by offering value. Most authors[ii] define value as benefit to cost ration. To equate…

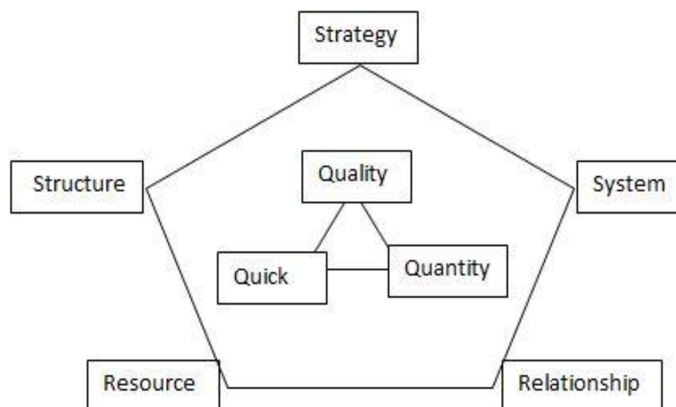
$$\text{Value} = \frac{\text{Benefit}}{\text{Cost}} = \frac{\text{Functional Benefit + Emotional Benefit + Experiential}}{\text{Acquisition cost + Time cost + Energy cost + Psychological cost}}$$

Benefit has two components Function and Emotional. The functional component comes from the quality of the product, its ability to perform. Emotional benefit most comes from the communication done with the customer, the positioning strategy employed by the company. Position is in the mind of the customer.

Components of the cost are acquisition cost, time cost, energy cost and psychological cost. Value to the customer can be increased by increasing the benefit, or reducing cost, or keeping cost same but reducing cost, or maintaining benefit same but reducing cost, or increasing benefit more than increased cost, or reducing benefit but reducing cost more etc. Similarly, value can be increased by reducing time cost, energy cost or psychological cost of the customer. Time costs can be reduced by reducing the lead period, energy costs can be reduced by using good IT systems and MIS. Customer's psychological cost can be reduced by ensuring delivery schedule, consistent quality, etc.

The five elements discussed in this book actively interact with each other.

To improve the quality, quantity and quickness; when the organization improves strategies, structures and systems along with careful analysis of resources and relationships, each of the five elements contributes to the outcome.



The three generic strategies suggested by Michael Porter are

Overall cost leadership,
Differentiation and
Focus

Economies of scale offers price competitiveness. M&A by increasing the scale of operations offer better economies of scale. Horizontal integration, integration of companies at the same stage of production, offer price competitiveness as result of increased production. Efficient manufacturing processes also offer price competitiveness. Increased demand through market penetration and market development warrants increased production offering economies of scale, leading to price competitiveness. When an organization enters into Joint Venture (JV), JV partner, depending upon the agreement may either offer better technology leading to better quality product or share production, giving economies of scale. Quantity is thus an important element.

Quality offers functional as well as psychological benefit to customer. Quality of the output depends on raw material used, production process employed and skills of the employees. Good quality of raw material can be ensured by vertical integration strategy. Backward integration ensures better raw material quality whereas forward integration by virtue of better customer service ensuring improved customer satisfaction. JV, long term partnership and strategic alliances as well help in improving quality of the product.

Operational efficiencies can be achieved by eliminating unnecessary activities, and giving time targets to employees. Organizational structure and efficient systems also contribute to quicker response to dynamic market conditions and changing customer needs.

There are multiple strategic options open for an organization to grow. However, which strategic option to select is based on the objective that the organization want to achieve. Having determined its values, vision and mission, the organization's objective, preferred future positions that it wishes to accomplish, should be ascertained. Objectives denote sought after results which the organization aspires to accomplish. They indicate the specific domain of aims, activities and accomplishments.

The five tasks of strategic management are as follows.

Develop a strategic vision and business mission
Set objectives
Craft a strategy to achieve objective
Implement and execute the strategy
Evaluate performance, monitor new development, corrective action

For growth, organizations should primarily overcome its weakness and challenges and leverage its strengths and opportunities. We have discussed that the organization is exposed to two types of environment, internal as well as external. Internal environment comprises of

- Value system: Choice of business, mission and objectives, business policies and practices.
- Vision, Mission and Objectives
- Management structure and nature
- Internal power relationship
- Human resources
- Company Image and brand equity, Infrastructure, R&D, Marketing resources, Financial factors

And the external environment comprises of

- Economic,
- Political,
- Regulatory,
- Socio/cultural,
- Demographic,
- Technological,
- Natural, and
- Global environment.

Thus, while formulating a strategy organization must put emphasis on internal as well as external environment.

Chris Bradley, et al., (2011)[iii] listed following tests for a strategy…

Will your strategy beat the market?
Does your strategy tap a true source of advantage?
Is your strategy granular about where to compete?
Does your strategy put you ahead of trends?
Does your strategy rest on privileged insights?
Does your strategy embrace uncertainty?
Does your strategy balance commitment and flexibility?
Is your strategy contaminated by bias?
Is there conviction to act on your strategy?
Have you translated your strategy into an action plan?

To answer these questions organization must go for SWOC analysis and identify area of emphasis to determine the appropriate strategic option. Pearce and Robinson (1988) in the book Strategic management: strategy formulation and implementation discussed the SWOT analysis[iv].

	Area of emphasis	
	Internal	External
Overcome Weakness & Challenges	Redirect resources Turnaround / Retrenchment Divest Liquidate	Acquire resources Vertical integration Diversify Conglomerate
Leverage Strengths & Opportunities	Focus Market development Product development Innovation	Horizontal integration Concentric diversification Joint Venture

Source: Adapted from Pearce and Robinson 1988

Company can set out its strategic agenda based on the above guidelines.

It is the external environment which exposes the organization to challenges and internal weaknesses. As listed above, the external environment: Economic, Political, Regulatory,

Socio/cultural, Demographic, Natural, and Global environment are common to all firms. However, technological changes could be company specific, as advantage to innovator and challenge to competitors.

As we discussed in the Arthur D Little matrix, strategy to be employed by the organization depends on the competitive position of the company. Yet the decision making has to be **quick** because if the technology is accepted by the industry in a short span of time then it quickly gets into the growth and maturity stage reducing the response time available to other firms and adversely altering their competitive position. Company thus has the option of internally redirecting resources to either develop the competitive technology, or else attempt turnaround. If the challenge still persists then go for retrenchment, divestment or liquidation as the situation may demand.

A cash rich company can however think of acquiring the resource, in this case the technology from the innovator to improve the **quality** of its product. The other option available is to attempt cost leadership compared to the innovators product, which demands either economies of scale, indicating **quantity,** by vertical integration to save cost. Company can as well go for diversification to reduce dependence on the product and form a conglomerate or geographical diversification to get access to new markets and thereby ensuring **quantity** but it has to be **quick** to avoid becoming laggard.

Organizations growth depends on its ability to overcome weaknesses and challenges and leveraging its strengths and opportunities.

The Three Qs and five elements: Quality, Quantity, Quick

Q-1: Ensure quality of the product

With increasing automation, quality in production will be at parity. Quality of the output (product) is no more a production function. Quality of the product is now a strategic function. Benchmarking quality of the product with competitor would be suicidal. Quality improvement is not about increasing the features of the product. Quality is something that the customers will experience while using and disposing off the output of the organization. Companies will have to look beyond their industry boundaries to develop a quality product.

Quality of the output also improves with the technology. For instance, the communication business. If the communication earlier was oral through a media, it moved to written through post, or personal delivery. It moved to telegrams, fax, email which ensured the speed of communication. Mobiles over a period of time ensured real time oral communication. As technology improved communication is audio visual. Initially improved communication meant only noise free communication, incremental improvements. Audio visual communication was a radical improvement in communication, much beyond noise free. Organizations thus must look at the core functional benefit customers look forward to and improve the customer experience with the core benefit.

Quality of communication has improved from written to video communication, not by adding features but by importing more benefits from other product categories like, audio equipment (mike, speaker etc.) and video equipment (camera, display etc.).

Strategies which can improve the quality of product are JV, strategic alliances and M & A, and Value Chain Analysis. As the organization concentrates on quality of raw material procured, operational efficiency, outbound logistics, marketing and sales and service.

Apart from feedback from customer, distributors and channel partners; involving suppliers in production process helps companies get better quality consistently. To ensure good quality, V-guard works closely with its vendors. “More than being a vendor, we work for V-Guard as a partner. The company is quite committed to maintain the quality of its products and provides constant feedbacks to improve upon the various aspect of production,” asserted Vivek Mahajan, executive director Navrich Electronics, supplier of stabilisers and invertors to V-Guard.[v]

Following table indicates strategies, structures and systems and their relative impact on quality, quantity, quickness, as well as resource utilization and relationships. As mentioned earlier the five elements are interrelated and have impact on each other as well. Thus a good strategy has positive impact on relationship as well as resource utilization. Thus the elements are presented as consolidated.

	Impact on				
Strategy	**Quality**	**Quantity**	**Quick**	**Resource**	**Relationship**
Stability	✓		✓		✓
Growth	✓	✓		✓	
Market Penetration	✓	✓		✓	✓
Market Development	✓	✓			
Product Development	✓				✓
Diversification	✓				
Vertical Integration	✓		✓ *	✓ *	✓ *
Horizontal Integration	✓	✓ *	✓ *	✓ *	
JV, SA, Long Term Contract	✓ *		✓	✓ *	✓ *
M & A	✓ *	✓ *	✓ *	✓ *	
Value Chain Analysis	✓			✓	✓
Overall Cost Leadership		✓		✓	✓
Differentiation	✓			✓	✓
Focus	✓			✓	✓
Structure					
Line			✓ *	✓	✓ *
Line and Staff	✓	✓		✓	
Functional	✓ *	✓ *		✓ *	
Geographic		✓	✓		✓
Product Specialization	✓ *	✓ *	✓		
Customer Specialization	✓ *	✓	✓		✓
Matrix	✓	✓	✓	✓	
System	✓		✓	✓	✓

*Indicate highest impact

Structure refers to the relatively more durable organizational arrangements and relationships. It prescribes the formal relationships among various positions and activities.

V-Guard had a strong network of 200 plus service centres, 3,000 channel partners and about 20,000 dealers[vi]. It had presence in diverse geographies, with 28 branches and 1,800 employees. The company's seven manufacturing units located in Coimbatore, Uttarakhand and Himachal Pradesh, while its R&D centre, approved by the Department of Scientific and Industrial Research, was at Kochi. Kochouseph Chittilappilly, Chairman, V-Guard mentioned, "All these years, we have been a dominant player in south, now we are aiming to replicate this success story to other non-south markets as well. All our efforts towards this end have paid rich dividend so far, with product evoking more than satisfactory response in newer markets."

To strengthen its distribution network, V-Guard was adding 725-750 channel partners annually for a period between 2007-08 to 2011-12. To be a pan-India player, the company strengthened its sales and marketing network considerably by increasing its distribution network. It expanded the non-south distribution network from 34 exclusive distributors and 16 channel partners in 2007-08 to 95 exclusive distributors and 1,365 channel partners in 2011-12. To make a dent into the newer territories, V-Guard had been wooing the distributors in these markets with higher margins of 5.5 per cent, as against 4.0-4.5 per cent in South.

System, as discussed earlier (in chapter IX) refers to a set of detailed methods, procedures and routines created to carry out a specific activity, perform a duty, or solve a problem. Systems set the time targets and ensure elimination of unnecessary activities.

Amul, is India's best known milk brand – despite credible competition from the slew of home-grown and MNC brands and mom-and-pop vendors. In its efforts to connect with a younger and wider audience, ice-creams and some quirky advertising are hardly the only things that Amul has been consistently working at. Considering the changing demographics, socio-cultural factors, the Gujarat Co-operative Milk Marketing Federation (GCMMF) that owns the brand is looking to augment its presence across newer territories, age groups and product categories[vii].

For years, Amul was protected by the Government's licensing norms, which didn't let private sector players get into the act[viii]. Cooperative brands such as Punjab's Verka, Maharashtra's Warana and Anshra Pradesh's Vijaya, made up for what Amul couldn't deliver.

In 1991, private companies were allowed in. Armed with sophisticated product technologies, they had the know-how to whip away the market's cream. They needn't stick to the top end; equipped with efficient production tools, they could play the cost-crimping game with finesse. With these challenges were new opportunities. Newer retail opportunities were in a younger, aspirational India and aggressive private players seek to grow in the ever expanding dairy space – India was the world's largest consumer of milk products and the demand for these was only growing as prosperity levels went up.

Strategy: Amul responded by augmenting its presence across newer territories, age groups and product categories. Brand entered a whole new, unexpected space – chocolate-flavoured milk additive, Amul Pro, to compete with likes of Boost, Complan, Bournvita, Horlicks in the milk additives market. Amul Pro was differentiated on two parameters, price and quality. The then managing director, and current CEO GCMMF, R. S. Sodhi was quoted as saying, "This is superior to other brown health drinks brands in cost and in nutrition value. It makes nutrition affordable to consumers."[ix] Mr. R. S. Sodhi added, "In terms of product innovations, we will sharpen our focus on value-added derivatives, moving further up the value chain. We will continue to enhance our range of fresh and fermented products."

Amul also ensured quality by controlling the raw material, operations, distribution and sales and marketing.

Structure

Amul model is, more than 16 million milk producers pour their milk in 1,85, 903 dairy co-operative societies across the country. Their milk is processed in 222 District Co-operative Milk Unions and marketed 28 State Marketing Federations[x]. Typically, just 60 per cent of a normal plant's capacity is used, taking as an average over the year. In the peak season – winter – processing sees a high utilisation level of 90 per cent, falling to 50 per cent in summer. The factories are built to handle the peak flows.

System

Amul model establishes a direct link between the milk producer and consumer eliminating the middlemen. Since the procurement is across the country the inbound logistic costs are reduced and so are the distribution cost with the 222 District Co-operative Milk Unions and marketed by 28 State Marketing Federations.

If a sector, industry is driven by technological advances, Joint Venture may help the organization gain foothold in the market.

Indian automobile industry, post liberalization saw most of the home-grown companies go to multinationals for technology. Bajaj – Kawasaki, Hero Cycles – Honda, Kinetic – Honda, TVS – Suzuki to name a few. Companies had internal strength of being present in Indian market with distribution network and brand name, the external emphasis to improve the quality was to get contemporary technologies.

Strategic alliances too can help organization for a specific purpose. For instance, procuring important components.

Q-2: Manage the Quantity

In highly competitive and price sensitive markets, organization must manage the quantity. Quantity does not refer to only production quantity but the distribution and promotion as well. Operational synergies reduce the cost and offer price competitiveness.

Internally an organization can increase its presence in new markets, market development strategy, and thus get favourable quantity. Or increase its product portfolio and get economies of scale in distribution and promotion.

Externally, Integration strategies, particularly horizontal acquisitions offer economies of scale by increasing the quantity. The benefits of economies of scale can be passed on to the customer for price competitiveness by retaining higher profits improve the bottom line.

Strategy

From a mere manufacturer of electrical voltage stabilisers, V-Guard Industries came a long way. Company diversified its product range – voltage stabilisers, pumps and water heaters to electrical wires, fans, solar water heaters, digital UPS systems, inverters, induction cooking tops and switchgears, thereby reducing dependence on stabilisers. V-Guard geographically expanded to Delhi-NCR, Uttar Pradesh, Punjab, Haryana, Maharashtra and other states by expanding its distribution network significantly. "From being a household name in south India, the company has now

consciously spread its wings to a much bigger geography. This is not only an attempt to de-risk our business model from regional concentration, but also to provide the desired scale and growth, moving forward. We have already begun reaping the benefits". Mentioned Mithun Chittilappilly, Managing Director, V-Guard Industries.[xi] Robust brand equity, coupled with strong distribution network and diversified portfolio, has provided the company with a chance to go head on against the competition.

When the company has strengths it should leverage its strengths internally by being focused, should develop new markets for existing products, develop new products to cater to changing consumer preference and should invest in R&D to innovate.

Innovation is not necessarily in product development only but also in the entire value chain.

In intensely competitive markets proven and tested products should be launched in the new markets when the organization is employing market development strategy. All the parameters of value chain have to be addressed when the organization is looking forward to expanding its markets.

When an organization is going for market development strategy, apart from, efficient inbound logistics, efficient operations and outbound logistics; the efforts have to be backed up by a well-chalked-out promotional drive.

As a brand building exercise, Publicis Ambience had undertaken national level activities for V-Guard. V-Guard associated with a premium sport event such as IPL, it was official partner to Kerala's IPL team Kochi Tuskers. Kaustav Das[xii] of Publicis Ambience mentioned, "We are not just acting as a creative agency; we are also a partner helping V-Guard achieve its goals in a desired fashion. We are trying to contemporise the brand as per the changing demographics."

Structure

To be price competitive, on Manufacturing front, V-Guard followed an asset light model where 60 per cent of its total portfolio is outsourced from multiple vendors.[xiii] While the company makes almost the entire lot of wires, cables and solar water heaters, it outsources other products in varied quantities. Even as the company outsources a majority of its product basket, it lays greater emphasis on product developments and innovations.

Strategy

To ensure quantity, Amul employed product development strategy, ensured superior product quality, affordable price and addressed changing consumer needs. Simultaneously Amul employed market penetration strategy by focusing on expanding category penetration and enlarging consumer base to tap the huge potential of for branded, packaged, value-added dairy products in urban, semi-urban and rural India.[xiv]

System

Milk turns sour easily, thus the production planning is critical. Projections of milk supplies have to be accurate, and what it goes into has to be synchronised with the rest of the sales and distribution. Amul's priority order is clear: liquid milk, baby food, butter, ghee and then the rest.

GCMMF's core products remain pouched milk and products like butter and ghee. But steadily added to its bouquet – from *khoya* to *shrikhand*, butter, cheese and *paneer* to yoghurt and butter milk, the brand-name Amul is synonymous with any of these – GCMMF is striking newer ground to take on

emerging competition from NMCs and private dairies and government supported competition cum sibling Mother Dairy.

Q-3: Be quick

The business environment is dynamic. Yesterday's strategies and products may not be motivating to staff as well relevant to customers. Organizations need to quickly address to external environment. This does not mean that it should introduce new products every day, or innovate every day. But when the company wants to reduce its dependence on a set of products of wants entry in new market it has to be done as quickly as possible, obviously with due diligence.

Strategy to be quick in market entry or new product is M&A. Vertical as well as Horizontal. Vertical integration quickly gives access to key resources or distribution network depending upon the nature of acquisition. Whereas, a horizontal acquisition quickly gives access to new markets and production capacities.

Mergers & Acquisitions are not inevitable. Companies can organically too, quickly gain access to markets, though not as quickly as M&A.

Strategy

V-Guard while consolidating its position in the southern markets was ramping up its operations in non-south markets like Delhi-NCR, Uttar Pradesh, Punjab, Haryana, Maharashtra by expanding its distribution network significantly. Out of 230 exclusive distributors the company had, a little more than half were in non-south markets.[xv]

Structure

With its distribution network, V-Guard gets feedback from its dealers about the product performance and customer needs. Company's asset-light structure reduces capex and working capital requirements and generate higher return ratio. Thus company can optimise its resources and focus on brand building and product diversification initiatives.

System

Replicate its success story on a pan-India level. Consolidate its presence in south, and gain desired traction in the non-south markets. While aiming to leverage its strong brand recall of south, is putting efforts to contemporise the overall brand image to take on the competition in a much wider geography.

Strategy

The innovation, new product lines and market penetration increased sales of Amul, all this was possible with excellent procurement policy. The dairy sector is largely unorganized. The cattle ownership in India is fairly fragmented. Amul developed a three-tier system to procure milk from millions of farmers across India, some owning just a cow or two giving as little as 10 litres a day. Individuals give milk to local cooperatives, which pass it on to district-level unions for pasteurisation and, if need be, spray-drying and other higher-order types of processing jobs.

System: The robust supply chain run bottom up and a large distribution network gave Amul an almost unassailable advantage. In the value added products categories like butter and cheese, competitors are compelled to give higher margins to their distributors, to compete with Amul products.[xvi]

Relationship with the supplier, the farmers is of highest level. The co-operative structure delivers on both quality and quantity of milk procured. With a mandate to look after the interest of farmers, rather than only work at profit margins, federation pays better than anyone else in the business, farmers remain loyal to co-operative dairies and ensure that these get good quality and quantity of milk.

Farmer members also receive additional incentives in terms of free veterinary service to their cattle, a good quality feed at lower prices and a bonus at the end of the financial year. The farmers are also paid a fixed price throughout the year, unlike private players who give less price for the milk during the peak season.

Strategy [Market development, Product Development, Market Penetration, Innovation, Low cost, Quality]

If Amul had restricted itself to selling only milk, the GCMMF would not have been able to provide remunerative price to its members. In order to give higher price for milk to its farmer members (it gives the highest procurement price to farmers in the country), the federation added more value-added products over the years. Company could nearly double the procurement price of milk mainly because of higher profit margins on value added products.[xvii]

Structure [Procurement, Operations, Distribution, Value Chain]

In the business of milk, the amount of volumes player handles is obviously crucial and it is here that co-operatives like GCMMF or indeed the Karnataka Co-operative Milk Producers Federation (KMF), the second-largest in the country hold sway.

System [Time targets, Eliminate]

Since the co-operatives and organisations such as the government backed Mother Dairy with its stronghold in the NCR, handle such large volumes, they focus on liquid milk (and ghee). The Co-operatives also work at wafer-thin profit margins that private entities do not necessarily find attractive or even worthwhile. So, private players in the space seem to have developed a different approach to the business by focussing on value-added products that can be marketed at a premium, largely to higher-paying urban/metro consumers.

Resources [Procurement, Machine, Manpower, Money]

Companies resources include its capabilities, competencies of its employees. When faced with weakness internally company can divert its resources or if the company is cash it should rich acquire resources to overcome the weakness and meet the challenge. Other recommended strategies for the organization to overcome the weakness or challenges it should go for vertical integration to reduce dependency on suppliers or distributors as the case may be. To reduce dependency on a market or a product company should go for diversification or form a conglomerate.

Private dairies are not in a position to augment their milk procurement and distribution network on Amul's scale. Amul has nothing to fear from private players mainly because of the advantages in terms of distribution network and logistics. Moreover, Amul has also been adding to its areas of procurement to maintain its leadership position and cater to the rising demand for both milk and value-added products, even as it innovates and looks to widen consumer base.

Relationship [Supplier, Customer]

The GCMMF, as a policy, deals only with co-operative institutions in other states. In fact, its member unions have also helped set up village-level co-operatives in states like Haryana and UP. A strong focus at the federation now is on reducing the number of infertile animals. As part of the fertility improvement programme being implemented from 2007-08, milk unions have deployed teams of veterinary consultants. The milk animals have been made productive through artificial insemination at the appropriate time and by providing nutritious feed; both measures for which farmers willingly pay to their own benefit.

The federation has prepared a mixed ration programme to provide nutritionally balanced animal feed to farmers at their doorstep and to reduce the cost of feeding and increase health and productivity of the livestock. The continuing thrust on small farmers remain clear in the midst of all this.

In order to make its members co-operatives clearly understand the broader vision and mission, the GCMMF also holds regular training workshops twice a year. Called Hoshin Kanri, a Japanese phrase for policy deployment, these discuss organizational goals and targets.

Video recordings of the exercise at the headquarters are shared with field sales team and distributors. This ensures that everyone is involved in the marketing process and has complete clarity about the organization's goals and strategy.

In order to strengthen knowledge and skill base of young girls and women in the villages about milk production management, the federation, with technical collaboration and resources of Anand Agriculture University, has initiated a *mahila pashupalan talim karyakram* program for women resource persons of the member unions. The federation also supports member unions in strengthening infrastructure for quality and clean milk production.

The federation has also continued with its policy of appointing professionals as top executives. While the board of directors comprises of elected heads of the district co-operatives, the staff employed by it are technically qualified persons either with an MBA degree or degrees in dairy technology, veterinary science, finance and accounting from reputed educational institutions.

The attrition rate at the federation has been low, especially at the higher management level. The low attrition rate at the top management level has enabled the federation to quickly address new challenges that came along with Amul's foray into new products and markets. Consistency in marketing communication strategy has also helped build Amul's brand equity even while it introduced new products at short intervals in newer markets.

To improve quality of the product, companies should employ value chain analysis, JV or get into strategic alliance. To get economies of scale and the desired quantity company can employ horizontal integration, JV, strategic alliance and market development strategies. To ensure quickness M&A prove more effective provided there are no cultural mismatch.

Organizational structure should be restricted to the geographic, functional, product or matrix types. Structure goes much beyond that as observed in case of large number of organizations. Mahindra & Mahindra, Amul, V-Guard all had structure to innovate, develop new product, suppliers other stake holders. Structural arrangements also help in improving quality, quantity as well as operational efficiency, quickness.

Systems of the organization help organization improve its quality, quantity and quickness. Systems at Amul helped it improve entire value chain, quality of its products, handle large procurement and responsiveness to changing customer needs.

To leverage its strengths and opportunities internally, company should develop markets and new products, focus and innovate. Externally, company can look for horizontal integration, concentric diversification or JV.

Though organization can employ multiple strategies for growth the success of the strategy still depends on the Internal consistency, consistency with the environment, appropriateness in the light of available resources, satisfactory degree of risk, appropriate time horizon, and workability in the organizational context.

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