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M.Com.

PART - I

STRATEGIC MANAGEMENT - I

(Revised Syllabus w.e.f Academic Year 2014-15)

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M.Com
Part - I

Strategic Management - I

(w.e.f the Academic Year 2014-15 in IDOL)

Course Objectives

1. To introduce the subject of Strategic Management to the students and make them understand its process, and levels. To help students identify and link Strategy formulation and implementation with environmental analysis.
2. To provide information pertaining to business, corporate and global reforms taking place globally and familiarizing the students to new formats of the market.
3. To acquaint the students with knowledge of disaster management to handle critical situations through practical application of strategies of control and prevention.
4. To outline and illustrate how the market for corporate strategy and control is related to corporate governance and help students relate their knowledge of India context to emerging trends of the global world.
5. To develop learning and analytical skill of the students to solve business cases and provide Strategic Solutions.

SECTION I

MODULE – I

Introduction to Strategic Management

1. Define Strategy, Strategic Management Process.
2. Levels of Strategies - Corporate, Business and Operational level, Types of Strategies - Functional Strategies, H. R. Strategy, Marketing Strategy, Financial Strategy, Operational Strategy.
3. Benefits and Risks of Strategic Management.
4. Formulation of Strategy and Strategic Implementation.
5. Business Environment, Components of Environment, Environmental Scanning, Analysis of Strategies and Choice of Strategy.

MODULE – II

Business, Corporate and Global Strategies : Practices and Issues

1. Introduction to corporate Restructuring, Need for corporate restructuring and forms of corporate restructuring.
2. Evaluation of Strategic Alternatives, Types of Strategic Alternatives like Portfolio Analysis and its techniques, SWOT Analysis, Profit Impact of Market Strategy (PIMS).
3. Strategic Change, Corporate Renewal, Internal and External Causes of Organizational failures.
4. Culture of Organization, Management of Strategies and Cultures.
5. Strategies for Foreign Direct Investment and International Trade in India.

MODULE – III

New Emerging Strategies in Information Communication Technology (ICT)

(15 Lectures)

1. Concept of Outsourcing, Strategic Reasons of growing Outsourcing in India.
2. Meaning of Management Information System (MIS), Strategic MIS, Characteristics of Strategic MIS System and Barriers to Successful Development of Strategic MIS System.
3. Business firms using Information Technology for creating Strategic Advantages - Reengineering Business Process, Virtual Company Strategies, knowledge creating company.
4. Emerging Strategies in Telecommunication Sector.

SECTION- II

MODULE – IV

Disaster Management: The Development Perspective, Concerns and Strategies

1. Disaster Management Strategies in Global Context.
2. Strategic ways of managing disasters at the National, State, District levels in India.
3. Challenges of Disaster Management of Governance in India.
4. Economic Losses due to disasters - Issues and Strategies.

5. Strategies for preventing disasters and Preparedness Measures.
6. Strategies to cope with Disasters.

MODULE - V

Strategic Alliances, Corporate Strategy and Corporate Governance

1. Meaning of Strategic Alliances, Types and Structure.
2. Problems in Indian Strategic Alliances.
3. Meaning of Corporate Strategy, Corporate Level Strategies - Mergers and Acquisitions, Takeovers, Joint Ventures, Diversification, Turnaround, Liquidation.
4. Relationship Between International Strategy and Corporate Strategies.
5. Corporate Governance Principles and Practices in India.
6. Corporate Governance Practices around the World.

MODULE - VI

Emerging Trends in Global Business Environment

1. Strategies for growing green economies.
2. Strategies for Governing Public Private Participation of Business Sector in India.
3. Meaning of Corporate Social Responsibility ((CSR), Strategies of linking CSR with Profit and Sustainability for obtaining business benefits.
4. Strategies for Environmental Accounting and Auditing.

Case Preparation and Analysis

Applying the Section II Modules I, II and III of Strategic management techniques and applications, cases can be illustrated and more detailed comprehension and analysis of the cases can be done by the students with the guidance of the subject teacher. The cases can be further represented by recommendations and suggestions by the students so that the students are exposed to creative analysis, critical thinking, accurate observations and developing learning skills.

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INTRODUCTION TO STRATEGIC MANAGEMENT

Unit Structure:

1.0. OBJECTIVES

After studying this unit the student will be able to -

- Understand the concept of strategy and strategic management.
- Know the process of strategic management
- Know the levels of strategic management
- Understand the various types of strategies
- Explain its advantages and limitations
- Know the roles, strategists play in strategic management.

1.1. INTRODUCTION

Globalization of economy has brought about revolutionary changes in the policy framework of both developed and underdeveloped countries. The liberalization has removed artificial trade barriers and businesses have, now truly become international and the competition has become very severe. These developments gave rise to new paradigms in business policies and strategic thinking. Due to this there are drastic changes in conventional concept of business. The survival and success of the firm ,is influenced significantly by superior strategies like business have started focusing on customers and their satisfactions rather than focusing on products and sales early 1960's corporate planning was popular but after 1980's its place has taken by strategic management to face stiff competition arisen by globalization.

There are number of examples where some firms have prospered and other has perished. The keen study of these cases reveals that the basic reasons of their success and failure are the types of policy that the firm pursues. This is known as business policy.

Business policy refers to decisions about the future taken by top management. It is guidelines given to employees by senior management for functioning. It is the means and ends, molding of organization's identity and character and continuous guidance of actions to attain goal.

Normally the business policy consists of :

1. Study of the functions and responsibilities of senior management related to the organizational problems affecting on the success of total enterprise.
2. It determines the future course of action which organizations have to adopt.
3. Choosing the purpose and defining the problem or need of the organization.
4. Lastly, it is concerned with the proper mobilization of resources so that Organization can attain its goal easily.

1.2 MEANING AND DEFINITION OF STRATEGY

Unlike the pure science which have their foundation in experimental research, management studies draw upon the practical experiences of managers in defining concepts? Business policy is rooted in the practice of management and has passes through certain phases before taking its shape of strategic management.

The concept of strategy is undoubtedly the most significant concept in business policy and strategic management. The concept of strategy is derived from military principles. In military context, the strategy is a plan of action to win a war. Here military identify the quality and quantity of resources to be mobilized and used at the most appropriate time in suitable and convenient manner to win a war.

In business parlance, there is no definite meaning of strategy and used for number of things like mobilizing and deploying resources systematically and attain organizational goal or the pattern of common thread related to the organization's activities which are derived from the policies and objectives and goals. It is related to pursuing those activities which move an organization from its current position to desired future state. It also relates to resources necessary for implementing a plan or following a course of action.

Strategy literal meaning is "In anticipation of opponents move, designing one's own way of action". As it has different interpretations and really difficult to fathom what strategy means. So we can conclude that it is the means to achieve organizational goal.

Following are some of the definitions with which we will be able to understand the meaning of strategy.

Definitions:-

"Strategy is the determination of the basic long term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals."

Alfrred D. Chandler.

"A strategy is a unified, comprehensive, and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization."

Lawrence R. Jauch & William F. Glueck.

1.3 NATURE AND CHARACTERISTICS OF BUSINESS STRATEGY

Following are the features of strategic management.

1. Objective.
2. Future oriented.
3. Availability and allocation of resources.
4. Influences of Environment.
5. Universal applicability.
6. Levels of strategy.
7. Review.

1. Objective Oriented:

The business strategies are objectives oriented and are directed towards organizational goal. To formulate strategies the business should know the objectives that are to be pursued. For example if any business want to achieve growth then it has to set following objectives.

a) To increase market share.
b) To increase customers satisfaction.
c) To enhance the goodwill of the firm.

2. Future Oriented:

Strategy is future oriented plan and formulated to attain future position of the organization. Therefore strategy enables management to study the present position of organization and decides to attain the future position of the organization. This is possible because strategy answer question relating to the following aspects.

a) Prosperity of the business in future.
b) The profitability of the business in future.
c) The scope to develop and grow in future in different business.

3. Availability and Allocation of Resources:

To implement strategy properly there is need of adequate resources and proper allocation of resources. If it is done then business can attain its objectives. There are three types of resources required by business namely physical resources, i.e plant and machinery, financial resources i.e capital, and human resources i.e manpower. If these resources are properly audited/evaluated and find out its strength and weaknesses and co-ordinate well then management can do better strategy implementation.

4. Influence of Environment:

The environmental factors affect the formulation and implementation of strategy. The business unit by analyzing internal and external environment can find out its strength and weaknesses as well as opportunities and threats and can formulate its strategy properly.

5. Universally Applicable:

Strategies are universally applicable and accepted irrespective of business nature and size. Every business unit designs strategy for its survival and growth. The presence of strategy keeps business moving in right direction.

6. Levels of strategy:

There are companies that are working in different business lines with regards to products /services, markets or technologies and are managed by same top management. In this case such companies need to frame different strategies. The strategies are executed at three different levels such as –

a) Corporate level
b) Business level
c) Functional/operational level

Corporate level strategies are overarching plan of action covering the various functions that are performed by different SBUs(strategic business unit, which involved in a signal line of business) the plan deals with the objectives of the company, allocation of resource and co-ordination of SBUs for best performance.

Business level strategy is comprehensive plan directed to attain SBUs objectives, allocation of resources among functional areas and coordination between them for giving good contribution for achieving corporate level objectives.

Functional level strategy is restricted to a specific function. It deals with allocation of resources among different operations within that functional area and coordinating them for better contribution to SBU and corporate level achievement.

7. Revision of strategy:

Strategies are to be reviewed periodically as in the process of its implementation certain changes are going to take place. For example while implementing growth strategy there could be shortage of resources because of limited sources or recession during the period so retrenchment strategy should be considered.

8. Classification of strategy:

Strategies are classified into four major categories known as –

a) Stable growth strategy
b) Growth strategy
c) Retrenchment strategy
d) Combination strategy.

1.4 STRATEGIC MANAGEMENT PROCESS

Strategic management is a dynamic process .it is continual, evolving, iterative process. it means that it cannot be a rigid, step-wise collection of few activities arranged in a sequential order rather it is a continually evolving mosaic of relevant activities. Managers perform these activities in any order contingent upon the situation they face at a particular time. And this is to be done again & again over the time as the situation demands. There are four major phases of strategic management process which are as under.

A) Establishment of strategic intent.
B) Formulation of strategies.

C) Implementation of strategies.
D) Strategic evaluation.

A. Establishment of strategic intent:

It is a first step in strategic management Process. It involves the hierarchy of objectives that an organization set for itself. Generally it includes vision, mission, business definition and objectives establishing the hierarchy of strategic intent which includes -

1. Creating and communicating a vision.
2. Designing the mission statement.
3. Defining the business.
4. Adopting the business model.
5. Setting objectives.

The hierarchy of strategic intent lays the foundation for strategic management of any organization. The strategic intent makes clear what organization stand for. In the hierarchy, the vision intent serves the purpose of stating what the organization wishes to achieve in the long run. The mission relates the organization to the society. The business definition explains the businesses of the organization in terms of customer needs, customer groups and alternative technologies. The business model clarifies how the organization creates revenue. And the objectives of the organizations state what is to be achieved in a given period of time.

B. Formulation of strategy:

Formulation of strategy is relates to strategic planning. It is done at different levels i.e. corporate, business, and operational level. The strategic formulation consists of the following steps.

1. Framing of mission statement :

Here the mission states the philosophy and purpose of the organization. And all most all business frames the mission statement to keep its activities in the right direction.

2. Analysis of internal & external environment:

The management must conduct an analysis of internal and external environment. Internal environment consists of manpower, machines, and other sources which resides within the organization and easily alterable and adjustable. These sources reveal the strength and weakness of the organization. External environmental factor includes government, competitions, consumers, and technological developments. These are not adjustable and controllable and relates to organizations opportunities and threats

3. Setting of objectives:

After SWOT analysis, the management is able to set objectives in key result areas such as marketing, finance, production, and human resources etc. While setting objectivities in these areas the objectives must be realistic, specific, time bound, measurable, and easy attainable.

4. Performance comparison :

By undertaking gap analysis management must compare and analyze its present performance level with the desired future performance. This enables the management to find out exact gap between present and future performance of the organization. If there is adequate gap then, the management must think of strategic measures to bridge the gap.

5. Alternative strategies :

After making SWOT analysis and gap analysis management needs to prepare (frame) alternative strategies to accomplish the organizational objectives.
It is necessary as some strategies are to be hold and others to be implemented.

6. Evaluation of strategies :

The management must evaluate the benefits and costs of each every alternative strategy in term of sales, market share, profit, goodwill and the cost incurred on the part of the strategy in terms of production, administration, and distribution costs.

7. Choice of strategy :

It is not possible to any organization to implement all strategies therefore management must be selective. It has to select the best strategy depending on the situation and it has to consider in terms of its costs and benefits etc.

C. Strategy Implementation :

Once the strategies are formulated the next step is to implement them. The strategic plan is put into action through six sub processes known as project, procedural, resource allocation, structural, behavioral, and functional implementation. The project implementation deals with the setting up of organization. Procedural implementation deals with the different aspects of the regulatory framework within which organizations have to operate. Resource allocation relates to the procurement and commitment of resources for implementation. The structural aspect of implementation deals with the design of organizational structures and systems and reorganizing so as to match the structure to the needs of strategy. The behavioral aspects consider the leadership style for implementing strategies and other issues like corporate culture, corporate politics, and use of power, personal values and business ethics and social he responsibilities. The functional aspects relates to the policies to be formulated in different functional areas. The operational implementation deals with the productivity, processes, people and pace of implementing the strategies

For any strategy implementation there are five major steps. Such as

1. Formulation of plans.
2. Identification of activities.
3. Grouping of activities.
4. Organizing resources.
5. Allocation of resources.

D. Strategic Evaluation:

Strategic evaluation appraises the implementation of strategies and measures organizational performance. The feedback from strategic evaluation is meant to exercise control over the strategic management process. Here the managers try to assure that strategic choice is properly implemented and is meeting the objectives of the firm. It consists of certain elements which are given below.

1. Setting of standards:- The strategists need to set standards, targets to implement the strategies. it should be in terms of quality, quantity, costs and time. The standard should be definite and acceptable by employees as well as should be achievable.

2. Measurement of Performance:- Here actual performances are measured in terms of quality, quantity, cost and time.

3. Comparison Of Actual Performance With Set Targets:- The actual performance needs to be compared with standards and find out variations, if any.

4. Analyzing Deviation And Taking Corrective Measures:- If any deviation is found then higher authorities tries to find out the causes of it and accordingly as per its nature takes corrective steps. Here some time authority may re-set its goals, objectives or its planning, policies and standards.

1.5 CORPORATE LEVEL STRATEGY

There are three broad levels of strategy known as-

A) Corporate strategy
B) Business strategy.
C) Functional strategy.

- **CORPORATE LEVEL STRATEGY.**

Corporate level strategies are basically related to allocation of resources among the different businesses of the firm, managing and nurturing portfolio of businesses etc. it helps to exercise the choice of direction that an organization adopts. Corporate strategy typically fits within three main categories- stability, growth, and retrenchment strategy. We will discuss these three strategies in detail.

Corporate level strategies are principally about the decision related to dispersion of resources among different businesses of an organization, transforming resources from one set of business to others and managing and nurturing a portfolio of businesses such that the overall corporate objectives are achieved.

1. Stability strategy:-

This strategy is adopted by the firm when it tries to hold on to their current position in the market. It also attempts at incremental improvement of its performance by marginally changing one or more of its businesses in terms of their respective customer group, customer function and technologies either individually or collectively. it does not mean that the firm don't wants to have any growth. Its attempts are at the modest growth in the same business line. For example any company offers a special service to a institutional buyers to increase its sale by encouraging bulk buyer so it is companies strategy of stability by improving market efficient.

2. Growth Strategy:-

This strategy is also known as expansion strategy. Here the attempts are made to have substantial growth. This strategy will be pursued when firm increases its level of objectives upward in a significant increment which is much higher as compared to its past achievements.

To achieve higher target compared to past the firm may enter into new /introduces new product lines, enter into additional market segment. it involves more risk and efforts as compared to stability strategy. The growth strategy is divided into two parts namely

i) Internal growth strategy and
ii) External growth strategy.

Internal growth strategy mainly consists of diversification strategies and intensification strategy.

External growth strategy consists of merger, takeover, foreign collaboration and joint venture.

The major objectives of adopting of growth strategies are –

i) Survival: - This is natural tendency of every business to grow. if it does not then new entrants will be there in the market and its life will be in danger. Survival is also necessary to face challenges of business environment.

ii) Innovation: - Innovation is important to business as it gives new product, new methods, new schemes with which business can grow to a desirable extent. With this business gets high performance, high results which are indication of growth.

iii) Motivation to employees: - growth strategy generates higher performance and it enables the firm to motivate employees with monetary and non-monetary incentives.

iv) Customer satisfaction: - Growth strategy enables the firm to give more satisfaction by providing good quality products at reasonable price.

v) Corporate image:- corporate image means creating good image of the organization in the minds of the all stakeholders. This will be made possible only with growth strategies of the firm as it gives quality goods to people, good return to investor, fair wages and salaries to employees with its increased volume of output and enhance performance.

vi) Economies of scale: - Due to growth strategy there is increase demand to a products which results in large scale production, which in turn brings economies of large scale. It may be in saving labour cost or material cost.

vii) Efficiency:- Efficiency is the ratio of returns to costs. Due to growth strategy there is innovation, up gradation of technology, training and development of employees and research and development all these leads to improvement in output and reduction in cost and increases profit.

vii) Optimum use of resources: - Due to growth strategy there is increased demand to a product. This leads to large scale production and distribution. Therefore the firm can make optimum use of resources.

viii) Expansion of business: - The growth strategy facilitates expansion to business unit. Because the performance of business units improves in terms of sales, market share and profit. Therefore the business unit can move from its local level function to national or international level.

ix) Minimize risk: - due to the expansion of business there is change in term of product sales, market areas. In this case if business suffers a loss in one product or market then it will be compensated in another market or product. Therefore the business will be minimize the risk.

3. Intensification Strategy:

In intensification strategy, the business tries to grow within the existing businesses through market penetration, market development and product development.

Market penetration means increasing current market's sale by undertaking aggressive efforts like high advertising, price cutting and sales promotion etc.

Market development means entering into new markets along with the current market. Here business units undertakes market research, effective pricing policy, effective promotion mix and distribution chain. And product development means introducing improved or substitute's product. It may be in the same market or new market.

4. Diversification Strategy:

Diversification is one type of internal growth strategy. It is changing product or business line. In this case business enters into in the new business service or product which is extension of existing activity or there could be a substantial difference in skill technology and knowledge. There are certain reasons because of company go for diversification. The reasons are as under

a. **Spreading of risk: -** Diversification enables to spread the risk. In this the business operates in a different markets where in one market business suffer a loss, that can be compensated in other market and the levels of profit will be maintained.

b. **Improves corporate image: -** Corporate image is creating mental picture of the company in the peoples mind. Through the diversification company as changes products and knowledge gives better quality product and services with which it creates positive impact on peoples mind.

c. **Face competition effectively:** - Due to the diversification company introduce wide range of products and services. This enables company to maintain it's a sale in the market.

d. **Utilization of resources: -** Diversification enables company to use the resources optimally as it has excess capacity manufacturing. If facilities managerial man power and other resources to production dept and other activities.

e. **Economies of scale: -** Diversification brings economies of scale especially in the area of diversification. The company can combine the distribution old product as well as new products with the help of same distribution chain.

f. **Customer satisfaction: -** When the company entered into new business it assured to give qualitative product and good services. This leads to customer's satisfaction.

g. **Synergistic advantages:** - Synergistic advantages are those which are gained by putting little bit improvement in the same product or process which are related to old product and gain new products. This will be easily attained in diversification.

- **TYPES OF DIVERSIFICATION:**

There are four major types of diversification knows as:

I) Vertical diversification: - Vertical diversification is the extension of current business activities. Such extension is of two types known as

a) **Backward diversification:-** It is a diversification where company moves one step back from the current line of business for example cupboard manufacturing unit enter into it's a raw material supply unit (Color and Hardware)

b) **Forward diversification: -** In this case company enters into the activity which is extension of its current business for example cloth manufacturer enter into garment manufacturing.

II) Horizontal diversification: - In this case company enters into a new business which is very closely related with existing line of business and it is with the help of the same technology and the market. For example gent's garments manufacture enter into ladies garments manufacturing.

III) Concentric diversification: - In this new business is linked to the existing business which is indirectly related. For example a car seller may start finance company to increase his sale.

IV) Conglomerate diversification: - In this type of diversification, the attempt is made to diversify the present market or product in a totally new product of market. There is a no linkage between old and a new business. For example Transport operator entered into furniture manufacturing

5. Turnaround Strategy:

Turnaround strategy means converting loss making unit into a profitable one. It is possible when company restructure its business operations. it is broad in nature and including divestment strategy (where business get out of certain activities or sell off certain units or divisions) Its aim is to improve the declining sales, market share and profit because of high cost of materials, lower price utilization for goods and services or increase competitions, recession, managerial in efficiency.

The turnaround strategy is needed when the following situations arise in business. Namely:-

I) Liquidity problem
II) Fall in market share
III) Reduction in profit
IV) Under utilization of plant capacity
V) High inventory

6. Divestment Strategy:

Divestment is dropping out or sells off the products, or functions. It involves the sale or liquidation of a portion of a business or major division or SUB. It is a part of rehabilitation plan and his adopted when turnaround has been attempted but has proven to be unsuccessful. There is certain reason for divestment

a. **Withdrawal of obsolete products:-** Those products which do not give adequate return to the firm will be removed. And the products which are having good market share and profitable will be continued.

b. **Problem of Mismatch:-** The business which is undertaken by the company is not matching with the existing business line. Therefore the company may take initiative to gate red of newly acquired business

c. **Problem of competition:-** Some times due to tough competition company may withdraw some products from the market or sell the units producing such products.

d. **Negative cash flows:-** When business gets negative cash flows from a particular business. The revenue collected from such a business is lower as the expenditure incurred on it therefore it is to be divested

e. **Technology Up-gradation:-** Technology Up-gradation is important for survival of business. But the cost of up-gradation is so high which is not affordable to business therefore that business activity is to be divested

f. **Concentration on Core Business:-** When business undertake number of activities at a time, then it may be difficult to the business to manage all activities satisfactorily. Due to this business ignore its over activity which leads to loss in business therefore to concentrate on core business divesting other activities is essential.

g. **Alternative for Investment: -** Some time, by divesting certain activity company can invest its blocked fund into some another investment alternative which will give good return

h. **Returns to Shareholders: -** Company, by divesting may increase shareholders return by giving shareholder hefty dividend.

i. **Attractive Offers from Other Firm: -** Sometimes it happens company may get offer from another company. To invest in a good return giving from company may divest current activity.

7. **Liquidation Strategy:**

This is extreme case of divestment strategy and is undertaken in the situation when all the efforts of reviving the company have come to an end. There is no possibility that the business can made profit making unit again. In such situation business takes decision to sell its entire business and the amount realized from it can be invested in another business. When it is done it is known is liquidation. This is generally done by small businesses.

There are certain reasons because of the liquidation has taken place that reasons are –

i) When the business continuously suffered loss and all efforts have failed to make it profitable again.
ii) When there is good offer from other businesses
iii) When business found that there are difficulties to deal with the present business
iv) When the business unit has taken over new business and the current business is not coping with or matching and current business is not profitable.

Whenever such type of situation has occurred, business, as per company act 1956 can go for liquidation.

The relief gained on the part of liquidation to the company is

i) It gives relief to financial institution as financial institutions are able to get their funds back.

ii) It enables the firm to enter into new business.

iii) It enables to the acquirer to consolidate its market.

iv) The shareholders of liquidating company may get shares or compensation from new company or acquirer.

v) The employees may not lose their job as the new management can continue them in new business.

8. Modernization strategy:

Modernization is nothing but it is improvement/up-gradation of existing physical facilities (plant, machinery, process etc) it is done to have improved quality of products and offer customer value. It is also undertaken to face competition on proactive basis and take competitive advantages. At present every firm is undertaking this on continuous basis to be there in competitive business era and ensure its survival, growth and prosperity

It is to be noted that while doing modernization, it incurred a cost, so before introducing it the firm must go through cost analysis and find out its impact in long term or short term basis and then take decision. However modernization has some advantages

i) Modernization can improve both product quality and over all organizational efficiency.

ii) There will be proper utilization of plant capacity, qualitative products will be produced and there will be increase in sale.

iii) Modernization helps business to face competition in the market. In fact, due to introduction of liberalization MNC, s and TNC,s are entering in market with sophisticated technology and competing them is not a easy task to Indian business here modernization helps.

iv) It also helps to build good corporate image in the market as good quality is the result of modernization.

v) Modernization also leads to economy in production by reducing cost of production per unit. This is because of reduction in wastages and increase in efficiency.

9. Merger Strategy:

Merger refers to combination of two or more companies where one company survives and another company ceases to exist. The merger takes place for consideration. Here the acquiring company pays it either in cash or its shares.

Advantages of Merger :

i) It enables the pooling of resources and streamlining of operations, thereby, resulting in improved **operational efficiencies.**

ii) Merger can bring out a **revival of sick units**. The sick units can be merged with strong companies, and therefore the problem of industrial sickness can be avoided.

iii) Merger provides **faster growth** to business as it offers advantages in several areas such as marketing, production, finance, R&D and so on.

iv) Merger can be used as effective source of **tax planning**, especially, when one of the merged entities was having accumulated losses.

v) There are some finance related advantages as merger results in integration of assets and other resources and provides stability of cash flows and serves as leverage for raising more funds from the market.

10. Joint Venture Strategy:

Joint venture could be considered as an entity resulting from a long term contractual agreement between two or more parties, undertaken for mutual benefits. It is a type of partnership and when both parties establishing new units that time they are exercising supervising and control over the new business. Joint venture also involves the sharing of ownership.

Now a days joint ventures are very popular as there is sharing of development cost, risk spread out and expertise combined to make effective use of resources. It is best way to enter into foreign collaboration. Generally Indian firms are entering into foreign collaboration with the help of joint ventures.

Following are the advantages of joint venture:

a) Huge capital
b) Better use of resources
c) Goodwill and reputation.
d) Risk sharing.
e) Economies of scale
f) Expansion and diversification.

g) Helps to face competitions
h) Customer satisfaction.
i) Motivate employees

1.6 BUSINESS LEVELS STRATEGIES / STRATEGIC BUSINESS UNIT (SBU) STRATEGY

1.6.1 MEANING

Corporate level strategies lay down the frame work in which business strategies operate. For example, corporate level decides to stabilize, expand or retrench whereas an individual business needs their own strategies in order to contribute to the achievements.

Business strategies are the course of action adopted by an organization for each of its businesses separately and aim at developing competitive advantages in the individual businesses that the company has in its portfolio and are also aimed to use the resources, skills, and synergies to enhance its competitive advantages. The multi-products and multi-geographic area company creates strategic business divisions to manage effectively each of the products. For example a multi-product firm likes Hindustan Unilever Ltd. have adopted the concept of strategic business unit. Each strategy is focusing on particular products like toiletries, beverages, laundry products, cosmetics and so on.

It is also known as Strategic Business Unit (SBU) strategy. This is developed by General Electric Company of USA, to manage its multi-product business. It is used by multi-product or multi geographic area companies to manage effectively each of the product or a group of product for example a multi-product firm like Hindustan Unilever Ltd. May adopt the concept of SBU. Separate SBUs may be created, each focusing on specific product like toiletries, beverages, ice-creams, laundry product, cosmetics, and so on.

Every SUB has four major important aspects to manage its activities efficiently that are –

a) Each unit has a separate management.
b) Every SUB formulates its own strategy with the line of organizational strategy.
c) The SBU has its own resources and manage in tune of organizational object.
d) The SBU should have inter competition between the other SBUs of the same Organization.

1.6.2 Advantages of SUB:

The company which adopt the business level strategy has certain advantages which are as under-

1. Effective Management:-the SUB being managed by an independent management it can concentrate on its own product. It looks into its planning, organization, proper direction and effective execution of its own resources. It also sees its own marketing mixes for good profitability.

2. Intra competition:- as every activity being managed independently, every manager will try to prove his efficiency and from that point of view he will compete with the other SUBs of the same organization.

3. Higher efficiency:- efficiency is measured in terms of ratio between input and output. Under this, every SUB will try to minimize its cost of production by reducing wastages, optimum utilization of resources and coordinating all resources.

4. Better customer service:-each SUB tries to provide effective customer service. The SUB tries to identify customer's needs and problems, and accordingly undertake products design and development so that the customer gets maximum satisfaction. With this it develops customer relationship and offer good services to customer.

5. Motivation to employees:- every SUBs manager creates team spirit among employees. They being aware that their performances are recognized they put themselves in full capacity and give maximum output to organization.

6. Corporate image:-it is a way of creating goodwill and reputation of the organization among the people. This will be complete with the help of-

a) Better customer services
b) New and innovative products
c) Market development through promotion, advertising etc.

1.6.3 Disadvantages of SUBs :

The business level strategy has certain disadvantages which are as follows.

1. **Higher overheads:-** as every SUB recruits its own staff there will be excess nos. of employees in organization which will lead to increase salary.

2. **Internal rivalry:-** in this system every SUB tries to prove that they are more efficient. They try to pull more resources towards each other and accordingly there is creation of disputes.
3. **Bias based support from top management:-** it is possible that there could be favoritism in terms of supply of material, recognition, rewards or allocation of resources.
4. **Problem of inter unit comparison:-** it is quite possible to do comparison between two or more units of the organization. This will lead to create diluted atmosphere in the organization.

1.7 FUNCTIONAL (OPERATIONAL) LEVEL STRATEGIES

Functional strategies are derived from business and corporate strategies and are implemented through functional implementations. Functional strategy deals with relatively restricted plan designed to achieves objectives in a specific functional area, allocation of resources among different operations within that functional area and coordination among different functional areas for optimal contribution to achievement of business or corporate level objectives.

The key task of strategy implementation is to align activities or capabilities of the organization with its strategies. For this, there is a need to have coordination among the strategies at different level.

The operational strategy mainly includes production strategies, marketing strategies, financial strategy and human resources strategy.

A. PRODUCTION STRATEGIES.

Production strategies are mainly aimed at improving quality, increasing quantity and reducing cost of production. For this purpose there is need to consider following activities.

1) Production capacity: an organization must decide its production capacity. This is subjective and depends on demand of the product in market and fluctuations in the market due to competition, recession, boom in market etc. however some organization decides it on the basis of its sales forecast. Now a day some firms are producing some part of production and partially they purchasing from others. So with the consideration of all these aspects the business should fix its production capacity.

2) Location and size of plants: While taking decision on location the business considers certain points from the view of place safety and security, local conditions availability of raw materials nearness to market law and order situation at the place, availability of infrastructure facilities as well as competent work force.

Size of the plant will be decided on the basis of projected demand for product and dependency of the firm on other firms which are supplying partially manufactured goods.

1. Technology:- it refers to the know-how and equipment, machinery, tools etc. while deciding on production these things are to be consider as its effects is there on capital manpower, and cost of production.
2. Research and development:- R&D helps to improve the quality reduces the cost of production etc. so it should be consider from the investment point of view, its processes and centralized or decentralized nature.
3. Quality of product:- production strategies are concerned with the quality of the product. Quality means fitness of the product. And this differs from customer to customer. Here the firm needs to know its customer first and then decide the quality of the product that a customer may find it suitable or not. They may like its quality, price etc. and then go for production.

B. MARKETING STRATEGIES.

Marketing refers to thorough understanding of customer that how he desire the product (from the view point of his perceptions to the products.) It is important aspects of any organization as its success is mostly attributed to the performance of the marketing. Therefore every business needs to frame suitable marketing strategies in respects of the following.

1. **Product strategy:-**product means anything available for consumption purpose of the people. And generally they desire quality products. Therefore, under this strategy the business unit takes decision in regards of product line/mix. If it found that there is no need to think of about diversified product then it continues stressing on core products. Then business unit may consider the development of new products. Here the business unit decides about the development of new products or modification of the product to face the competition in the market and to meet the needs of the customer. And under same strategy business may think of other product policies like product’s packaging, branding, or its positioning.

2. **Pricing strategy:-**price is very sensitive part of marketing. With a minor change in price there would be greater set back to sales. Therefore the business unit considers various sub variables of the price element such as credit period, discount, competitor's price list etc. and fix price to the product. After that business unit should consider the different methods of charging price to product and as per customer's convenience and market situation the price should be charged to the product. Besides this, there will be other strategies, consider by business units are as under:

a) **Skimming pricing strategy:-** In this case at the initial stage of product the prices of products are very high and as the sales volume increases in that proportion the price of the product will be reduced. This type of pricing is adopted for recovering heavy expenditure incurred on the part of research and development by earning huge profit.

b) **Penetration pricing strategy:-**in this case low prices are charged at initial period of launch of the product and as there is good response to the product and its sales increases in that proportion the price of the product will be reduced. This is done to capture the market.

c) **Other pricing strategies:-** in this case the business use to adopt other methods of charging price to the products like-

i) Leader pricing method
ii) Cost plus method.
iii) Psychological pricing method.

3. **Distribution strategy:-** distribution means supple of goods from manufacturer to customer. If the supply of product good, regular, on time then only here will be smooth and efficient functioning of marketing. From this point, marketer takes decision on channels of distribution, area of distribution, dealer's network, and policies regarding dealer's efficiency like incentives, commission rates etc.

4. **Promotion strategy:-** promotion means communication or supply of information to the customer about products and services. For this firm uses various means o tools of promotion like advertising, sales promotion, publicity, personal selling and so on. Here marketer's responsibility is to see every mean keenly and then design strategies in regards of each respective means. For example in case of advertising he should have think from the point of its budget, media selection strategies, media scheduling strategies etc. in the same way with other strategies.

C. FINANCIAL STRATEGY.

Finance is the back bone of each and every business unit. Therefore the financial management of the business units deals with planning, raising, utilizing and controlling functions of the organization's financial resources to attain its goal. Generally financial policies are design from the view point of

a. **Mobilization of funds:-** the funds are required to undertake various business activities. There a decision has to be taken in regards of purchase of fixed assets as well as current assets requirement and any other long them investment. While taking decision on fixed assets it is mostly taken on the basis of

a. Nature of business:- it means that whether it is manufacturing unit or trading unit. If it is manufacturing it requires more amount and vice versa.

b. Size of business unit: - that is large size or small size. If it is large then more capital and if it is small then it requires less amount.

c. Technology used: -if lets developed technology is used the more amount and labour intensive firms requires fewer amounts.

d. Scope of business activities: - that is more goods are produced then more amount is required and only one or two products are produced the low amount is required.

In case of current assets or working capital the decision is to be taken on the ground of-

i. Nature of business:-here the firms are using expensive raw material may require more funds and vice-versa.

ii. Operating cycle :-the firms having long operating cycle and selling goods on credit basis requires more capital and vice-versa

iii. Growth and expansion of business:-if the firms are growing rapidly then require more funds.

iv. Seasonality of operations:- the products of the firm are seasonal then during the period only the fund requirement will be more and in slack season there is no more fund requirement.

e. **Capital structure:-**Capital structure refers to the composition of firm's long term funds comprising of equity, preference and long term loans. There should be proper ratio between owned and borrowed funds. It is to be noted that one should not place too much emphasis on borrowed fund because it puts burden on company's financial aspects as there should be regular payment of interest and repayment of loan. Also too much emphasis on equity capital is not good as it dilutes the equity capital. In shot there should be balance between borrowed and owned capital.

f. **Depreciation policies:-** Depreciation is a activities which provides compensation to the risk of wear and tear. There are two methods of depreciation known as i) fixed line method and ii) reducing balance method.

   Under the company law both methods are accepted but for income tax purpose, in certain cases written down method is accepted and in some cases straight line method is accepted.

g. **Dividend strategy:-** dividend is a return on investment given to the investors. No doubt every investor wants to have a good rate of return on their investment and most of the companies are willing to do so. Here as per financial strategy company should think of its effects on financial aspects and then go for either liberal dividend policy or conservative dividend policy.

h. Retained earnings strategy:- it means keeps earned income with company itself. Generally whatever amount of profit is earned is to be spent (used/utilized) for different purposes by company. Here the company should have to think of that what portion of profit is to be kept for future activities like:

i. Future needs of funds for development.
ii. To provide stable dividend to the shareholders or
iii. To meet the restrictions of financial institutions etc.

D. HUMAN RESOURCE STRATEGY:

Human resource is the most important resource among all resources required by an organization. This is the only alive and sensational resource. So every organization those who want to develop and grow rapidly should be very cautious about these resources and should plan for their best uses and performances. If business is able to do so then it will attain its apex level of success without any hurdles. For this the organization has to take decisions in regards of

i. Recruitment and selection strategy.
ii. To make employees more competent, the training strategy.
iii. Their performance appraisal strategy.

iv. Promotion strategy.
v. Employee's motivation strategy.
vi. Transfer strategy.

1.8 BENEFITS OF STRATEGIC MANAGEMENT

The strategic management has certain benefits or importance are briefly explained as follows

1. **Choice of Strategy:-** strategic management helps to management to select the best possible strategy option. Then it may be internal or external growth of the organization. For example in case of internal growth it may adopt intensification or diversification strategy

2. **Improves Employee's Efficiency:-** strategic management clarifies about what to do, how to do, when to do a particular task to the employees. This helps to employee to perform a job accurately and expertise which leads to increase in efficiency.

3. **SWOT Analysis:-** A thorough analysis of internal and external environment of a business enables to identify the strength and weakness as well as threats and opportunities of the business. This helps the business to keep pace with the changing nature of the environment affecting to the firm. And this is possible only with the help of strategic management.

4. **Aids in planning:-** strategic management helps to frame realistic plans.

5. **Organizing Resources:-** business objectives can be accomplish with the help of proper allocation and utilization of resources. This is possible only with the systematic plan, which is the result of strategic management.

6. **Helps in Evaluation:-** the important aspect of strategic management is evaluation of plans or strategy. Here the actual performance will be compared with standards set and if any variation is found then the corrective measures are taken.

7. **Facilitates Communication and Coordination:-** as the strategies are well planned. For its proper execution there is need to have proper communication and coordination at all levels of operations.

8. **Helps to face Competition:-** strategic management enables a firm to meet competition more effectively. This is because strategic management enables to develop effective strategies to face the competition.

1.9 RISKS / LIMITATIONS OF STRATEGIC MANAGEMENT:

1. **Limitation of Assumption**: - Strategic management is based on certain assumptions, if that assumptions remains good then the plans will be implemented otherwise there be no use of strategic management.

2. **Problem in Analyzing Environment**: - the success of strategic management is depend on the correct analysis of internal as well as external environment. Here especially the external environment scanning is important to grab opportunities which many times does not proved.

3. **Unrealistic Mission and Objectives:** - if the mission and objectives are not realistic then the strategic management can't be successful.

4. **Problem of Setting Target**: - sometimes it happens that the strategists may be very enthusiastic so they may set unrealistic goal which will be difficult to accomplish.

5. **Problem in Implementation**:- implementation of strategy is important if it is not implemented well then there may be problem, the strategy may not give the desired result.

6. **Lack of Commitment of Lower Level:-** generally the strategies are framed by top level management and at the time of framing if top level management has not consulted with lower then lower level management may not be that much committed. In other word they being unaware of the plans may not give desired performance. Their dedication may not be there up to expected level.

7. **Problem of Resistance**: - there may be resistance on the part of employees to accept the set target of the top management.

8. **More theoretical in Nature**:-as per experts opinion strategic management is more theoretical. In practice there are different so it remains unsuccessful.

9. **Problem of Internal Politics**:-in organizations, there are differences among or between departments. So as there is no good relation, proper coordination, strategies became unsuccessful.

10. **Problem of Traditional Management**:- the traditional management has narrow approach towards development. Its

philosophy is not progressive; they want to run their business with the same fashion. So the strategies are not fruitful in this case.

1.10 SUMMARY

Strategic management provides the framework for all the major business decisions of an enterprise such as decisions on businesses, products and markets, manufacturing facilities, investments and organizational structure.

In a successful corporation, strategic planning works as the pathfinder to various business opportunities; simultaneously, it also serves as a corporate defense mechanism, helping the firm avoid costly mistakes in product market choices or investments. Strategic management has the ultimate burden of providing a business organization with certain core competencies and competitive advantages in its fight for survival and growth.

An SBU has three characteristics:

- It is a single business or collection of related business that can be planned separately from the rest of the company.
- It has its own set of competition.
- It has a manager who is responsible for strategic planning and profit performance and who controls most of the factors affecting profit.

1.11 QUESTIONS:

1. "In anticipation of opponents move, designing one's own way of action". Discuss.
2. Define Strategic Management. What are the Characteristics of Strategic Management?
3. "Strategic Management cannot be a rigid, step-wise collection of few activities arranged in a sequential order". Discuss.
4. Elaborate the basic elements of strategic management process.
5. "Production strategies are mainly aimed at improving quality, increasing quantity and reducing cost of production". Explain.
6. Explain in detail Corporate Strategy.

7. What are the benefits of Strategic Management?
8. Discuss the Limitations of Strategic Management.
9. Elaborate the Functional Strategies.
10. Write Short Notes:
    a. Diversion Strategy
    b. Growth Strategy
    c. Disinvestment Strategy
    d. Liquidation Strategy
    e. Merger Strategy
    f. SUBs Strategy
    g. Financial Strategy

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2

FORMULATION OF STRATEGY AND STRATEGIC MANAGEMENT

Unit Structure :

2.0 OBJECTIVES

After studying this unit the student will be able -

- To formulate and implement strategy in business.
- To know business environment & its components.
- To understand environmental scanning.
- To know the analysis of strategies.

2.1 INTRODUCTION

Business decisions are influenced by two sets of factors known as internal environmental factors and external environmental factors. Therefore these two factors are very important to any business so for its decisions are concerned.

The internal factors are also known as controllable factors as they can be managed and control by the business as per its need necessity or requirements. These factors are being resided with company premises are known as internal factors. External factors are as residing outside the business is not controllable. Here business itself has to change or mould it resources for getting its support.

As the environmental factors are beyond the control of a business organization, its success will depend mostly on the adaptability of the business to the environment. In other word if the business is able to property design and adjust the controllable (internal) factors to take advantages of the opportunities and combat the threats in the environments.

These are certain challenges faced by business units, among all those one most critical challenge is to cope up with the environmental dynamics of change. Which many a time assumes the nature of turbulence.

In fact business environmental exposes two challenges to the organization such as -

i) The challenge to combat environmental threat.

ii) To exploit the business opportunities.

To come up with the solution of these two there is new of environmental analysis.

Environmental analysis is the first step in strategic management. Here strategists monitor the economic governmental, legal, market, technological, geographical and social settings to determine opportunities and threats to the business.

So in this chapter we are discuss the business environment in detail before formulating and implementing strategies.

2.2 BUSINESS ENVIRONMENT

2.2.1 Meaning and Definition of Business Environment:

It is said that the business can not live exist, survive in its isolation. It need support from different aspects of its surrounding. That surrounding factors around the business is known as environment. It may be living or non - living but its support, positive response is essential for business smooth functioning. Therefore we can summarize environment as all those factors or forces, residing besides the business and affecting its functions or various decisions of the business.

A business environment consists of two types of environment known as internal environment and external environment.

Definition :

According to Keith Davis “Environment of the business means the aggregate of all conditions, events and influences that surround and affect it”.

According to Arthur M. Weimer’s opinion, “Business environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are conducted.”

2.2.2 FEATURES

With the help of above noted definitions and the meaning, we can points out some of its features.

1) **Environment is dynamic in nature**: It keeps on changing as changes are going to take place.

2) **It has direct and indirect impact**: Environment gives direct and sometimes indirect effect on the working of the business.

3) **It has two types of factors**: Environment mainly consists of two type of factors namely internal and external environmental factors.

4) **It is not separatable from business**: Environment is integral part of business. Without the support of either internal or external forces business can’t run or operate.

5) **Impact on business decisions**: Due to environment business can take proactive or reactive decisions in its operation to make operation more beneficial.

6) **It regulates the scope of business**: Environment directs to the business, whether its has to with or without internal or external forces consideration. For example Govt. bans something so business should think of and according more forward.

7) **It is multi dimensional**: This it always consider both aspects of a force i.e. its positive as well as negative impacts.

2.3 COMPONENTS / PARTS OF BUSINESS ENVIRONMENT

There are two major parts of or components of business environment known as -

i) Internal Environment

ii) External environment

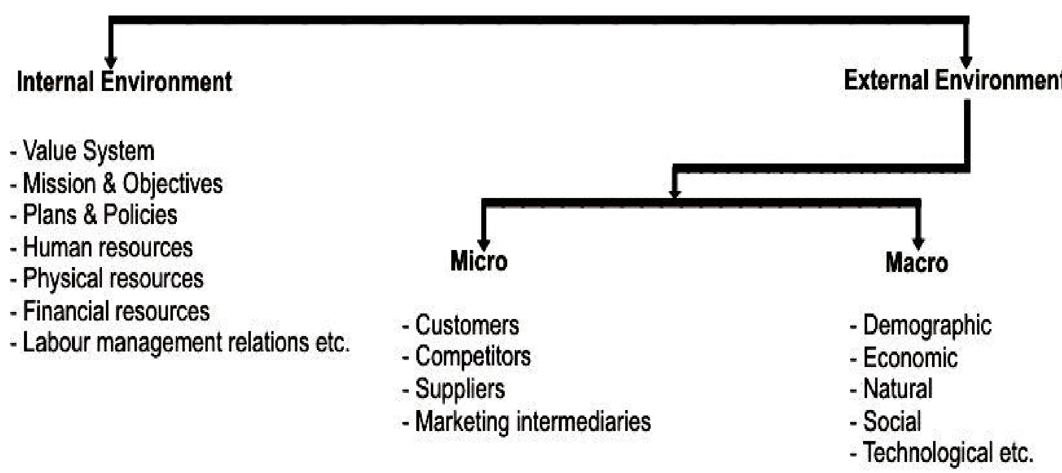
The external environment is divided into two parts known as

i) Micro component of environment and

ii) Macro component of environment

These all parts of the environment will be present in the following way

Components of Business Environment



Lets Discuss these points in details :

1. **Internal Environment:**

Internal environmental factors are these, which resides within company premises and are easily adjustable and controllable. Company as per its necessity & requirements, moulds it and take appropriate support from these factors, so that business activity can run safety & smoothly.

i) Value System : The value system is helm (the position of control) of affairs of the founders. Therefore it is widely acknowledge fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success. If the founder has strong value, then he will never do any activity which is out of limit. For example, Murugappa group had taken over the E.I.D. porry group, which is one of the most profitable businesses. Its one of ailing business was liquor, which was sold off by Murugappa, as it did not fit into its value system.

ii) Mission and Objectives: Mission is basic or fundamental cause because of what the company came into existence. It is company’s domain, priorities, or ways of development. Generally company is objectives are consistent with mission statements. Therefore it is always advisable to the company to Frame a mission statement and then to list out various objectives. The study analysis of internal environment enabled the company to find out, whether the objectives are in line with mission statement or not.

iii) Plans & Policies : Plans & policies are nothing but deciding in advance, of a particular activity i.e. what is to be done, how it is to be done, when it is to be done etc. and according executing them to attain the success. Here business unit need to frame there plans & policies with the consultation of business objectives and available resources. Here internal environment analysis will help to the firm to know the appropriateness of plans & policies.

iv) Human Resources : Human resources are most important resources among the required all types of resources by the firm. There resources are very sensible; therefore every business need to tackle them with carefulness and cautiousness, because the survival and success of the firm is largely depends on the quality of human resources. The internal environmental analysis in respect of human resources reveals the shortcomings of human resources and measures need to be undertaken for its creativeness.

v) Physical Resources : Physical resources consist of machines, equipments, buildings furniture’s and fixtures. The analysis of these resources reveals the deficiencies of these resources. The business may take corrective steps to remove these deficiencies.

vi) Financial resources: Finance is the back bone of each & every business. So every business needs to have proper financial management, which includes the consideration of financial sources. Financial policies, financial positions, capital structure, management of working & fixed capital, build up adequate reserves for future etc.

The analysis of there resources reveals that the soundness of its financial position.

vii) Labour management relations: It is stated that the business flourish to a greater extent, if it is supported by labour / human resources well. Even if there are certain shortcomings on the part of other physical, natural, resources, but there is good relation between management and labour then there would not be a problem. To keep a good relationship with labours a management needs to take care of all types of problems of the labour. It includes salary, wages, facilities allowances, good working conditions, their promotion transfer, etc. The analysis & internal environmental discloses the certain short comings.

2. External Environment :

External environment is also important in survival and success of the business unit. External environment means those factors or forces which resides outside the business, but has its influence over the functioning of the business. As these forces resides outside, does not have control over them. The environment factors are of two types known as i) Micro environment and ii) Macro Environment.

i) Micro Environment :

Micro environmental factors mean those which are very close and direct effect factors. It includes suppliers, competitor's customers, marketing intermediaries and the public at large. These factors are more intimately linked with the company than the macro factors. These factors are giving individual effect on each company rather than a particular industry. Let's see the all these factors in detail.

a) Suppliers : It is important force in micro environment. This force supplies the inputs like raw materials and other supplies. This is important because of supplying smoother functioning of the business. The supply is very sensitive. So many companies give high importance to vendor development. The company never depended on a single supplier because if they back out, or any other problem with that supplier may seriously affect the company.

b) Customers : Customer is the king of the market. Therefore every company strives to create & sustain customers in the market. So that it can survive & be success in the market. In fact monitoring the customer sensitivity is the pre-requisite for the business success.

There are different categories of customers like individuals, household industries and other commercial establishments and govt. etc. Depending on a single customer is dangerous to the company as it place to the company in poor bargaining position and customer's switching to competitors may lead to closure of the company.

Therefore the choice of customer segment should be made with the full consideration of profitability, stability of demand, growth prospects and the extent of competition.

c) Competitors : In simple word competition means the firms which market the same products. Here all those who compute for the discretionary income of the consumer are considered as competitors. Discretionary income of the consumers means creating consumers decisions for similar or equivalent needs products. For example for A T.V. manufacturer another T.V. manufacturer is not only a competitors but refrigerators, cooking ranges, or other saving and investment institutions, as they are attracting consumers towards their product.

d) Marketing Intermediaries : Marketing intermediaries means those who are helping company to supply goods from manufacturing company to customer it includes agents and merchants who help company to find customers sales it's the products or those who are physically distributing the goods from their origin to their destination. It includes warehousing, transportations, marketing firms, or promoting companies products. These intermediaries are vital link between the company and the final users. So the wrong choice of the marketing intermediaries may cost the company heavily.

2) Macro - Environment :

Macro environment is not that much immediate environment of a company. This macro environment factors are for away from the company but it gives indirect effects on companies functioning. The micro environment operates in a large macro environment forces that shapes opportunities and pose threats to the company. It includes demographic, economic, natural, social and technological environmental forces or factors.

a) Demographic environment: It is relates to human population with reference to its size, density, literary rate, gender, age, occupations etc. By going through all these elements of demographic environment business units decides its production and distribution strategies property. It also gives effect on technology intensive business for its product if the high population growth rate exists or vice versa. Again the occupational and spatial nobilities of population have implications for business. i.e. it labour is easily moveable from one business to another, as well as other region, then its supply will be smooth otherwise business have to face labour problem.

b) Economic Environment: Economic conditions, economic policies and the economic system are the important external factors which are framing economic environment for a business.

The economic conditions of a country means the nature of the economy, the level (slope) of development of economy, economic conditions, the level of income of the people, or distribution of income and assets etc. These factors are important while determining the business strategies, for example in a developing country the low income may be the cause for very low demand for a product, here business can't increase the purchasing power of the people to generate higher demand for its product. So here the company should emphasis an reduction of prices for higher sale.

The economic policy of the govt. has great impact on business in this case same business are favorably affected and same are adversely affected by government policy. For example if govt. wants to protect home industries then its affects import competing industries. On the other hand if a liberalization of the import policy may create difficulties to home industry.

The economic system refers to the kind of economy; the country has i.e. free market economy, capitals or socialist economy.

c) Natural Environment : If consists of geographical and ecological factors such as natural resources endowments, weather and climatic conditions, location aspects in the global context, port facilities, etc. which are relevant to business. The geographical and ecological factors influence the location of certain industries. For example industry with high material index tend to be located near the raw material sources in the same way climate or weather conditions matter a lot in certain industries like cotton textile industry. The ecological factors have great importance. Say govt. policies aimed at the preservation of environmental purity and ecological balance have resulted in additional responsibilities and problems for business. Same of these have dead business towards increase in cost of production and distribution.

d) Social - Cultural environment: Socio cultural fabric is on important environmental factors that would be analysed while formulation business strategies. For a successful business, the buying and consumption habits of the people, their languages, beliefs and values, customs and traditions, taste and preferences and education level should have to be considered and then it has to decide its strategy so that it will be fit in social - cultural environment.

e) Technological environment: Technological environment are relate to technological know - how, used in business.

It is expected that business need to introduce and use latest technology in their production. But technological developments sometimes pose problems to business as business are not able to cope up with developed technology and hence its existence came into danger. The technological development may increase demand for a production too. For example in India as we are having frequent power flections, if the business introduces voltage stabilizers then definitely there will be growing demand for electrical appliances.

f) Political environment: The government is the care taker of all of us. So it also takes care of business too. While working on business govt. frames certain policies as per its ideology. So whenever govt. through its policy brightness the prospects of some enterprises may pose a threat to same others. For example liberalization has opened up same opportunities to same business at the some time it has give set back to same business.

In our country the govt. is not a static. It changes after every five years. So whenever new govt. comes into power its changes its policy which affects business positively or negatively.

2.3 ENVIRONMENT SCANNING

Environment is surrounding around the business with which business is able to move / function smoothly and regularly and continuously. Here scanning means looking into all aspect of environments parts. Here environmental analysis enables a business firm to identity its strengths weaknesses, opportunities and threats. The proper evaluation or analysis of environment helps a firm to formulate effective strategies in various areas of its functions. The significance of environment scanning will be explained as under.

2.3.1 Importance of Environmental Scanning :

Following are the points suggest importance of scanning of business environment.

i) Identification of strengths : The analysis of internal environment helps to identify the strength of the firm and every organization put its all efforts to maintain and improve its strengths. For example every business will see that how we maintain competent & dedicated employees. What will be ways with which we can pursue good HRP & HRD and what will be the methods with which we may have good & improved & latest technology etc.

ii) Identification of weaknesses : The business analysis give idea about business weakness. The weaknesses are barriers in the process of development. There for every organization try to point out its drawback and will try to improve it. Then the weakness may be in terms of its technology, HR, lack of finance or in any other areas.

iii) Identification of opportunities : Opportunities generally resides outside the business. Therefore external environment analysis helps to point out and use for business benefits. Business also undertake all those efforts to grab that opportunities. For example it govt. gives concession or subsidies. Then business may cut its products prices and may gain large sell advantage of products.

iv) Identification of threat : The business may have threats from its competitions or rivals and others. Therefore environmental analysis helps to identify those threats and helps to defuse them before it affects on business or its functioning.

v) Effective planning : Environmental scanning help to business in the preparation of effective plan. The planning is the guide of the business or so it is to be prepared defect free. Environmental analysis does that and helps business.

vi) Survival and growth of business : Survival and growth are two basic objectives of any business. Without attainment of there two, there is no meaning to the existence of business. So analysis of environment ensures the existence of there two objectives and according business unit.

vii) Facilitates organising of Resources : Business units needs different resources, it includes natural, physical, Human resources etc. There resources are limited in number. Therefore it should be used in very conscious way. The analysis of environment enables business to organize all these resources in required and logical manner.

viii) Flexibility in operations: A study of environment enables a firm to adjust its activities depending upon the changing situation.

ix) Corporate image: Corporate image means create mental picture of the firm in the minds of customer. Due to the analysis of environment, there is over all improvement in the performance of the business, and its effect is there is good image of the business among all i.e. customer dealer, suppliers etc.

x) Motivation to employees : Because of environmental analysis there are goods decisions, improved performances, and introduction of new HR policies, employees in the organization are motivated.

2.3.2 Techniques of environmental scanning : There are various techniques of environmental scanning. Some of the important techniques are explain as follows:

i) Forecasting

ii) Scenarios

iii) Spying

iv) Gathering verbal information

v) QUEST (quick environmental scanning technique)

2.4 SUMMARY

Business Environment consists of all those forces both internal and external that affect the working of a business. It refers to the conditions, forces, events and situations within which business enterprises have to operate. Business and its environment are closely related and the effectiveness of interaction of the two determines the success or failure of a business.

The business environment can be broadly divided into two groups A. Internal Environment B. External Environment

Environmental Scanning means an examination and study of the environment of a business unit in order to identify its survival and prosperity chances. It means observing the business environment both external and internal and understanding its implications for business opportunities. It also involves knowing beforehand the risks and uncertainties as well as threats to the business unit.

2.5 QUESTIONS:

1. Define Business Environment. Explain the features of Business Environment.
2. Explain in detail the components of Business Environment.
3. "The proper evaluation of Business Environment helps a firm to formulate effective strategies in various areas of its functions". Discuss.
4. Write short notes:
    a. Internal business environment
    b. External Business Environment

❖❖❖❖

3

GLOBAL STRATEGIES: PRACTICES AND ISSUES

Unit Structure

3.0 OBJECTIVES

After studying the unit the students will be able to:

- Explain define the concept Corporate restructuring its need and forms.
- Understand the concept Corporate Portfolio Analysis and its techniques.
- Know the Meaning and Nature of Process of Management Change its Causes of Resistance to Change and how to Resistance to Change.
- Familiarize with Business, Corporate and Global Strategies
- Analyze cases and develop strategic solutions.

3.1 INTRODUCTION TO CORPORATE RESTRUCTURING

3.1.1 Need for Corporate Restructuring

Corporate Restructuring is concerned with arranging the business activities of the corporate as a whole so as to achieve certain predetermined objectives at corporate level. Such objectives include the following:

1. **Growth and Expansion:** Corporate restructuring helps a firm to grow and expand. For instance, merger may enable a company to grow faster as compared to firms that undertake internal expansion.

2. **Competitive Advantage:** Corporate restructuring may enable an organization to gain competitive advantage in the market. For instance takeover or merger may enable a firm to gain economies of large scale production and distribution. Therefore, a firm would be in a better position to produce quality goods and at lower prices.

3. **Corporate image:** Corporate restructuring may be undertaken to improve the image of the firm to improve its performance. Improved performance enables a firm to improve its image.

4. **Concentration on core business:** Corporate restructuring may be undertaken to enable a firm to focus on core business. In some cases, a firm may find it difficult to manage growing business, and therefore, it may divest non core business to concentrate on core business.

5. **Debt servicing problem:** Some firms may face the problem of debt burden. They may find it difficult to service the debt .i.e., repayment of loan installment and interest. Some firms may divest a part of the business so as to generate funds for the purpose of repayment of debt.

6. **Market Share:** Corporate restructuring may be undertaken to increase market share. For instance, firms may adopt the strategy of merger or takeover in order to increase the market share. The merger or takeover may enable the firm to take the advantage of goodwill of enjoyed by the merged firms or takeover firm.

7. **Mismatch Problem:** Restructuring may be undertaken to overcome the problem of mismatch of business. At times, a business firm may take over another business or entered into a new line of business which may not match with the current line of business.

8. **Obsolete Products:** At times, a firm may withdraw obsolete products from the market. After withdrawing obsolete products the firm can utilize its resources on existing brands.

3.1.2 Forms of Corporate Restructuring

Corporate Restructuring may be a one-time exercise for an organisation but it has a lasting impact on the business and other concerned agencies due to its numerous considerations and immense advantages viz., improved corporate performance and better corporate governance.

Corporate restructuring is an expression, by which a company can consolidate its business operations and strengthen its position for achieving its short-term and long-term corporate objectives - synergetic, dynamic and continuing as a competitive and successful entity.

Types of Corporate Restructuring: The most commonly applied tools of corporate restructuring are amalgamation, merger, demerger, acquisition, joint venture, disinvestments etc. Corporate restructuring refers to reorganizing a business firm. It may include a major reorganizing such as in the case of mergers, or a minor restructuring such as downsizing of workforce. The main purpose or corporate restructuring is to make best use of resources in order to generate higher return on investment.

3.2 FORMS OF CORPORATE RESTRUCTURING

Corporate restructuring refers to reorganizing a business firm. It is done in order to make best use of resources and to generate maximum return on investment.

A. MERGERS AND TAKEOVERS

1. Mergers:

They can be defined as the fusion or absorption of one company by another.

In a case of Company A and Company B, a merger can take place by Company A and Company B merges into a third entity to be called as Company AB and Company A and B ceases to be legal entity, OR Company A transfers its business and undertakings including assets and liabilities into Company B and Company A ceases to be in existence.

A merger refers to a combination of two or more companies into one company. It may involve absorption or consolidation. In absorption one company acquires another company, and in consolidation two or more companies join to form a new company.

- **Mergers may be broadly classified as follows:**

(i) Concentric– within same industries and taking place at the same level of economic activity – exploration, production or manufacturing wholesale distribution or retail distribution to the ultimate consumer.

- Horizontal merger: A firms engaged in same line of business
- Vertical merger: A firms engaged in different stages of production in an industry.

(ii) Conglomerate – Merger of firms engaged in unrelated lines of business or between unrelated businesses.

- **Reason for mergers**

a. To undertake diversification

This follows the need of a narrowly based business to reduce the risks by broadening its activities. To reduce the risks effectively, the acquired firm must not be subject to the same risk promoting factors as a parent firms even though its may operate in a different fields.

b. To secure scare sources of supply

Where any of the resources which the business needs are in short supply or subject to other difficulties, one solution for it is to acquire its own sources. By mergering the different resources available with two or more units can be pooled together.

c. To secure economies of scale

Increase in volume of often leads to decrease in operating costs, thereby enabling a larger capacity bank to survive. Merger is considered when the bank has low profitability and through merger bank can secure economies of scale.

d. To have better management

Where the business suffer from poor management and it does not appear possible to rectify this in the near future, the problem may be resolved by merging with good management team.

e. To improve the financial standing

When two firms join together, the strengths of both of them are added together and the market may put a higher valuation on such combination than on the constituent parts.

f. To achieve a monopoly position

The elimination of competition by absorption gives a firm a greater control over a market. The competition in the market can be reduced with the merger of firms engaged in the similar market.

g. Revival of Sick units

Merger can bring out a revival of sick units. The sick units can merged with strong companies, and therefore, the problem of industrial sickness can be avoided in case of certain units.

2. Amalgamation:

It **is** an arrangement‘ or reconstruction‘. Amalgamation is a legal process by which two or more companies are joined together to form a new entity or one or more companies are to be absorbed or blended with another and as a consequence the amalgamating company loses its existence and its shareholders become the shareholders of new company or the amalgamated company.

To give a simple example of amalgamation, we may say A Ltd. and B Ltd. form C Ltd. and merge their legal identities into C Ltd. It may be said in another way that A Ltd. + B Ltd. = C. Ltd.

3. Take over:

It is generally involves in the acquisition of a block of equity capital of a company which enables the acquirer to take control of the affairs of the taken over firm. In the theory, the acquirer must buy more than 50% of the paid up capital of the acquired company to take over the control of the affairs of the acquired firm, but in practice in most of the cases, even between 20% to 40% is sufficient enough to exercise control, as the remaining shareholders are scattered and unorganized, and therefore, are not likely to challenge the control of the acquirer.

Takeover is a corporate device whereby one company acquires control over another company, usually by purchasing all or a majority of its shares.

Takeovers may be classified as friendly takeover, hostile takeover and bail out takeover.

Takeover bids may be –

- Mandatory - This type of bid has arisen due to regulatory requirement.
- Partial - Partial bid covers a bid made for acquiring part of the shares of a class of capital where the offer or intends to obtain effective control of the offered through voting power.
- competitive bids - This type of a bid envisages the issue of a competitive bid so that when a bid is announced by a prospective acquirer, if any other person finds interest in acquiring the shares, such acquirer should offer a competitive bid.

There are several reasons for takeover. The most obvious **reasons for takeover are :**

- Quick growth
- Diversification
- Establishing oneself as industrialist
- Reducing competition
- Increasing the market share or even creating goodwill.

Takeover have become commonplace in the Indian corporate world. Many foreign MNC□s are taking over existing Indian firms so as to facilitate easy entry in the Indian market.

B. PORTFOLIO RESTRUCTURING:

Portfolio restructuring basically involves modifying the business portfolio divestiture and de – merger.

1. **Purchase of Division / Plant**: A firm can purchase a division or plant of another firm for the purpose of improving its market or financial position. For instance, a large cement company can purchase a cement division of a diversified firm, or a large food and beverage company can purchase foods division of another diversified company.

2. Divestiture: A divestiture involves the sale of a division or a plant or a unit of one firm to another. From seller's point of view, it represents contraction of portfolio, and from the buyers point of view it represents expansion.

Reasons of Divestiture:

- Raising capital
- Reduction of losses
- Concentration on core business
- Improvement in Efficiency

3. De-merger: A demerger takes place, when a firm transfers one or more of its units to another firm. The company whose unit is transferred is called Demerger Company, and a firm to which the unit is transferred is called the resulting company. A scheme of demerger, is in effect a corporate partition of a company into two undertakings, thereby retaining one undertaking with it and by transferring the other undertaking to the resulting company. It is a scheme of business reorganization
De-merger can takes place in two forms:

In spin – off: A division or unit is spun-off into an independent company.

In split – up: An existing company is split up into two or more independent companies.

Reasons of Demerger:

- Sharper focus
- Improved initiatives and accountability

There are 2 modes of demerger: partial demerger and complete demerger

- **Partial demerger**: In the case of a partial demerger, the existing company also continues to maintain its separate legal identity and the new company being a separate legal identity, carries on the separated or spun off business and undertaking of the existing company.

- **Complete demerger**: In the case of a complete demerger, the existing company is voluntarily wound up and its entire business, undertaking etc. are transferred to one or more new companies.

C. FINANCIAL RESTRUCTURING:

Financial restructuring of a company involves a rearrangement of its financial structure to make the company's finances more balanced.

A company may reorganize its capital in different ways, such as reduction of paid up share capital; conversion of one type of shares into another; conversion of shares into debentures or other securities. It involves a significant change in the financial structure of the firm or the pattern of ownership and control.

1. Going Public: Private Limited companies, closely held public companies, and even sole trading concerns and partnership firms may go public. The main reason is mainly to access capital for its growth and expansion plans.

2. Debt – equity Swap: When a firm finds it difficult to service its existing debt, it may decide to convert debt into equity.

3. Leveraged buyout: It normally involves an acquisition of a division or unit of a company; and occasionally, it involves the purchase of an entire company.

4. Buy back of shares: A share buyback involves a firm's decision to repurchase its own shares from the market. The main reasons of buy back are:

It is a defensive strategy against a potential takeover.

The management may have excess cash, but lacks profitable investment opportunities.

To provide returns to the remaining share holders in future, as the number of shareholdings get reduced.

D. ORGANIZATIONAL RESTRUCTURING:

A good number of firms are resorting to organizational restructuring to face competition and to improve their financial position. Some of the ways are:

1. Regrouping of business: Firms are regrouping the existing businesses into a few compact strategic business units, which are often referred to as profit centers.

2. Business process reengineering: It aims at improvements in performance by redesigning the processes through which an organization operates.

3. Downsizing: It involves retrenchment of surplus manpower through voluntary retirement scheme and other schemes.

4. Outsourcing: Companies are resorting to outsourcing or sub contracting, which helps to reduce manpower and convert fixed costs into variable costs.

E. REHABILITATION SCHEMES:

A sick unit can be revived to improve its financial position by adopting revival schemes. Some of the important revival schemes are:

1. Settlement with creditors: A sick units is normally not in a position to honor its commitments, and therefore, it must enter into a settlement with its creditors.

2. Divestment: A sick unit may divest or dispose of unprofitable units, and plants, and other non – essential assets in order to improve liquidity.

3. Strict control over costs: A sick unit should have a strict control over costs, especially over its discretionary expenses.

4. Streamlining of operations: Business operation must be reviewed to find out any unproductive activities.

5. Provision of Additional capital: A sick unit normally requires additional capital for working capital needs, repair and modernization of plant and machinery.

3.3 CORPORATE PORTFOLIO ANALYSIS

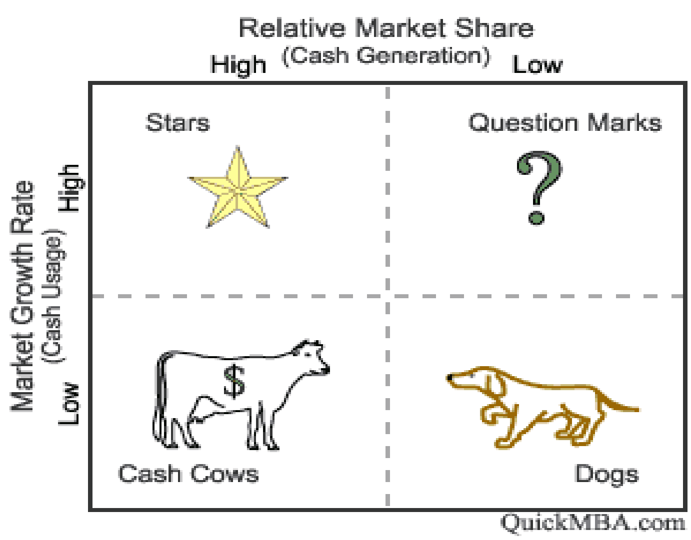
In portfolio analysis, top management views its product lines and business units as a series of investments from which it expects profitable returns. It is mainly used for competitive analysis and corporate strategic planning in multi-product and multi- business firms.

There are several techniques of portfolio analysis that can be used by business firms. Some of the important business techniques are as follows:

3.3.1 Boston Consulting Group (BCG) Matrix

BCG Matrix was developed by Boston Consulting group, USA. According to this technique, businesses or products are classified as low or high performers depending upon:

- Industry Growth Rate
- Firm's Market Share



1. The **stars** are market leaders and are usually able to generate enough cash to maintain their high market share. When their market growth rate slows, stars become cash cows. The main features of stars are:

- High industry growth rate.
- High market share
- The firm may undertake various activities such as:
- R & D introduce better features
- Effective after sales service to enhance customer loyalty

2. The **question marks** are also called as wild cats. They are new products with the potential for success, but they need a lot of cash for development. The main features of question marks are:

- High industry growth
- Low market share

The firm may adopt growth strategy for question marks. Various activities may be undertaken to transform question marks into stars.

- Penetration pricing strategy
- Effective sales promotion and other elements of promotion – mix
- Dealers incentives
- Enhancing customer relationship

3. The **cash cows** bring in far more money than is needed to maintain their market share. In their declining life cycle, the money of cash cows is invested in new question marks. The main features of cash cows are:

- Low industry growth
- High market share

The company may adopt stability strategy. Various activities may be undertaken such as:

- Retentive advertising to maintain customer loyalty
- Guarantees and warranties depending upon the nature of product.

4. The **dogs** have low market share and do not have the potential to bring in much cash. According to BCG matrix, dogs should be either sold off or managed carefully for the small amount of cash they can generate. At times, the dogs may be withdrawn from the market so that the company concentrates its efforts on question marks or stars. The main features of dogs are:

- Low industry growth
- Low market share

3.3.2. General Electric (GE) Business Screen

General Electric of USA, with the support of the consulting firm McKinsey and Company developed a more complicated matrix as a technique of portfolio analysis. The GE screen includes 9cells based on two parameters – long term industry attractiveness and business strength or competitive position.

The GE screen includes:

- Industry attractiveness in case of growth rate, profitability, seize, pricing practices, other possible opportunities and threats.
- Business strength of a firm, which include its market share, technological up gradation, profitability, and size, and other possible strengths and weaknesses.
- The GE Business Screen can be depicted in the following exhibit:

The nine cells of the GE matrix are grouped on the basis of low to high industry attractiveness, and weak to strong business strength or competitive position. Three zones are made, each indicating different combinations represented by green, yellow and red colors.

- **Green Zone**: The green zone indicates firm's competitive position is strong and industry attractiveness is high in case of certain products and firm's competitive position is strong and the industry attractiveness is medium in the case of certain products. The green zone signal is to "Go ahead".

- **Yellow Zone**: The yellow zone indicates firm's competitive position is strong and industry attractiveness is low in case of certain product and its average and the industry attractiveness is medium in the case of certain products. The yellow zone gives signal for "wait and watch".

- **Red Zone:** The red zone indicates the firm's competitive position is average and industry attractiveness is low in case of certain products and firms competitive position is weak and the industry attractiveness is low the case of certain products. The red zone gives the signal to "stop".

Overall the 9 cell GE Business Screen is an improvement over the BCG Matrix.

3.3.3 Strategic Position and Action Evaluation (Space)

This technique considers the firms strategic position and the strategic position of the industry. SPACE involves a consideration of four dimensions.

- Firm's competitive advantage.
- Firm's financial strength
- Industry strengths
- Environmental stability

The SPACE factors are depicted as follows:

Competitive Advantage	Industry strength
Technology Market share Manpower etc	Growth Rate Profit Potential Size, etc
Financial Strength	**Environmental Stability**
Profits Liquidity Reserves, etc	Government Policies Competitor's Strategies Customer Preferences, etc.

Depending upon the nature of for SPACE dimensions – firm's competitive advantage, financial strength and environmental stability – the organization may adopt any one of the strategic postures.

- Aggressive Posture (Internal and External Growth Strategies – Mergers, Takeovers etc)
- Competitive Posture (Internal Growth Strategy)
- Defensive Posture (Stability Strategy)
- Conservative Strategy (Stability or Retrenchment Strategy)

The four strategic postures are depicted in the following exhibit:

3.3.4 Direction Policy Matrix (DPM)

The DPM developed by Shell Chemicals, UK, uses the two dimensions to select strategies:

- Business Sector Prospects
- Firm's Competitive Capabilities

Each dimension is further divided into three grades

Business sector prospects are graded into:

- Unattractive
- Average
- Average

Firm's Competitive capabilities are graded into

- Weak
- Average
- Strong

The combination of two dimensions with three grades of each provides a nine - cell matrix as shown in the following exhibit:

The strategies that can be used on the basis of DPM are as follows:

- **Market Leadership**: The business with strong capabilities and attractive business prospects can become market leaders through heavy investment in market development and R & D activities.

- **Diversification:** The business with strong capabilities and average business prospects may require additional investments in areas like market development and R & D so as to increase market share.

- **Product Differentiation:** The business with average capabilities and attractive business prospects may be expanded through product differentiation.

- **Cash Generation**: The business with average capabilities and average business prospects fall in this category.

- **Phased Withdrawal**: A business with weak and average capabilities and average or unattractive business prospects may be phased out or divested in phases, as such business are not likely to earn enough returns as compared to others.

- **Liquidation**: A business with weak competitive capabilities and unattractive business prospects should be divested or liquidated, as such business may continue to incur losses in future as well.

- **Internal Growth Strategy**: A firm with weak capabilities but with attractive business prospects may adopt stability strategy or internal growth strategy. The internal growth can be undertaken with the help of market penetration.

3.3.5 TOWS MATRIX

The TOWS matrix illustrates how the external threats and opportunities facing a particular corporation can be matched with the company's internal strengths and weaknesses sot he at 4 sets of possible strategic alternative emerge:

- SO – Strengths – Opportunities Strategies
- WO – Weakness - Opportunities Strategies
- ST – Strengths – Threat Strategies
- WT – Weakness – Threat Strategies

The following are the steps to develop TOWS Matrix:

- In the Threats (T) block, list the external faced by the company now and may be in the near future.

- In the Opportunities (O) block, list the external opportunities available to the company now or may be in the near future.

- In the Weakness (W) block, list the firm's weakness that the company has now or in the near future.

- In the Strengths(S) block, list the firm's strengths that the company has now or may have in near future.

Internal factors / External factors	Strength (S) List 5 – 10 internal strengths	Weakness (W) List 5-10 internal weaknesses
Opportunities (O) List 5 – 10 external opportunities	SO Strategies (use strengths to take advantage of strategies)	WO Strategies (Overcome weaknesses by taking advantage of opportunities)
Threats (T) List 5 – 10 external threats	ST Strategies (use strengths to avoid threats)	WT Strategies (Minimize weaknesses and avoid threats)

The TOWS Matrix is useful for generating a series of alternative strategies. It can be used for the entire firm, or it can be used for a specific business unit within a firm.

3.3.6 PROFIT IMPACT OF MARKET STRATEGY (PIMS)

The PIMS project was started by Sidney Schoeffler working at General Electric in 1960s managed by the Marketing Science Institute in the early 1970s and has been administered by the American Strategic Planning Institute since1975.

It was initiated by senior managers at GE who wanted to know why some of their business units were more profitable than the others.

The initial survey, between 1970 and 1983 involved 2600 strategic business units from 200 companies. Each SBU gives information on the market within which they operate, the products they had brought to market and the efficacy of the strategies they and implemented. The PIMS study measured the impact of strategic planning on affirms return on investment (ROI). This study aimed to identify the most important variables affecting profits. The PIMS study collected data from several business units across different industries. Based on the collected data, the study identified the most important variable that influence profitability. Some of the variables that impact profitability include:

- Market share
- Investment intensity
- Corporate diversity
- Product or Service quality
- Product promotion
- Product pricing
- Product design etc

CRITICISMS OF PIMS MODEL

Several critics have criticized the research findings of PIMS model, the existence of linear relationship between market share and profitability with lower market shares. These are valid in the following cases:

- When the cost per unit declines with an increase in market share due to economies of large scale production and distribution.

- When the firm undertakes effective marketing mix, more would be the demand, which in turn would lead to higher production and distribution.

- When firms offer premium quality products and charge premium price that more than covers the costs incurred on R & D improve quality.

3.4 STRATEGIC CHANGE

3.4.1 Meaning and Nature of Organizational change

A Change may be influenced by internal or external factors. Organizational change is any alteration that occurs in the working of an organization. Changes are introduced in strategies, procedures, objectives, technology, job designs, and people.

The following are the features of organizational change:

- **Pervasive in nature**: Changes are required in all organizations. No organization can succeed without a change. A change in one part of the organization may affect changes in the other parts of the organization. Some parts of organization may be affected more than others. Some parts may have a direct impact, whereas, others may have an indirect impact. Therefore, it is essential for the management to assess implications of any change in the organization.

- **Necessities new equilibrium**: when a change takes place in any part of the organization, it disturbs the existing equilibrium in the organization. A change requires need for new equilibrium in the organization.

- **Continuous in nature**: Organizational change is a continuous in nature. As long as the organization exists, there would be changes.

- **Reactive and Proactive**: A change may be reactive or proactive. A reactive change is unplanned and it takes place due to changes in the environment. Proactive change is the deliberate attempt on the part of the organization.

- **Change is different from innovation**: Change and innovation are two different concepts. All innovation is change, but not every change is innovation. Innovation takes place when an organization exploits an idea to introduce a new and innovative product, to develop a new technique, method, process, etc.

- **Internal and External forces**: All organizational change can take place due to variety of factors or forces. The forces can be internal or external. The internal factors may be in respect of management-labor relations, management policies, working conditions, management philosophy, etc. the external factors relates to competition, government customers, suppliers, dealers.

- **Degree of change:** Changes may differ in terms of degree. Some changes may require massive restructuring in the organization, such as changes due to mergers, takeover, etc.

- **Risks and Rewards:** Changes are subject to risk and rewards. When changes are introduced, and the changes bring positive outcome, the organization may get the rewards in terms of higher performance or results.

3.4.2 Process of Management of Change

The following are the various steps involved in the planned process of management of change:

1. **Identifying need for a change:** The first step in the process of management of change is to identify the need for a change. Often a need for a change arises due t forces in the external environment such as technological factor may force the management to introduce a change in the organization. Internal factors may require a change in the organization such as high cost of production, high maintenance costs. Fall in sales, decline in profits, increase in employee grievances, increases in absenteeism etc.

2. **Decision on elements of change:** After identifying the need for a change, the management must decide in the elements which require a change. For instance a company's sales may decline due to faulty promotion, defective pricing policies and problems in distribution, problems in the product

3. **Planning for change:** After identifying the elements that require a change, eh management should plan for a change. Planning for a change need to answer the following questions like who's should introduce a change? When to introduce a change? How t introduce a change?

4. **Assessing Possible Impact:** The management should also assess the impact other change on the stake holders such as employees, customers, etc. For instance, introduction of new technology may have a direct impact on the work force such as reduction in work force, Problem of social networking and need or additional training.

5. **Communicating the change:** The management must communicate the change to the various stakeholders. For instance, if there is change in the price of goods, the management must inform to the customers, dealers, sales - force and other concerned parties.

6. **Overcoming the resistance to change:** At times there may be resistance to change. For instance, employees may resist automation for the fear of retrenchment, problem of adjustment to new technology, etc.

7. **Introducing a change:** The management introduces the change after communicating and on overcoming the resistance, if any. According to the Paul O'Neill introduction of a change involves a three step procedure:

   - Unfreezing means that the old ideas and practices need to be kept aside so that new one can be learned.
   - Changing means the new ideas and practices are accepted and learnt by the employees.
   - Refreezing means the new techniques which are learnt is put into practice.

8. **Review:** There must be a review to ensure that the change is progressing in the right direction. The change should bring the desired results. For this purpose, the management should constantly monitor the performance of the change process. If there are any problems due to the change, such problems should be handled immediately. The timely identification of problems and appropriate solutions to such problems will enable the change to bring the desired results into the organization.

3.4.3 Causes of Resistance to Change

In any organization, there is resistance to change. The resistance to change can be at individual level, group level and even at the organizational level.

The factor or causes of resistance to organizational changes can be broadly classified as follows:

I. Individual factors

There are several factors operating at individual level, which are responsible for resistance to change in the organization. Some of the individual factors responsible for resistance to change are briefly stated as follows:

a. Psychological factors: The psychological factors are based on individual feelings emotions and attitudes towards change. The major psychological factors responsible for resistance to change are as follows:

i) Fear of Unknown: Individuals may resent change for the fear of unknown. For instance, a firm may introduce new technology and an individual employee may resist such change may be because of the fear of non exposure to new technology.

ii) Status quo: Most individuals are satisfied with their present routine of work environment. They feel that changes could disturb their present pattern of work and life.

iii) Problem of Ego: Some individuals enjoy present status in the organization. They satisfy their ego needs with the present position or status in the organization.

iv) Lack of Trust: At times, individual employees may not have faith and trust in the change agent. They feel that the change agent introduces the change to satisfy his own interest rather than the interest of others who would be affected by such change.

2. Economic factors: Individuals may feel the economic loss due to the proposed change in the organization. The economic cause's resistance to change can be stated as follows:

1. Redundancy of Jobs: Employees may feel that a change can make their jobs redundant as such as they lose their jobs which in turn would affect their economic security.

2. Problem of Incentives: At times, a change would reduce incentive of employees such as over-time pay and as such they may resist change.

II. Group Factors

Individuals as members of group may jointly resist a change in the organization. The group resistance to change can be explained from the view point fo nature of group dynamics and vested interests.

- **Group Dynamics**: It refers to the interaction among the group members, which in turn affects the group behavior. The members of a group may jointly oppose a change in the organization, as it may affect the group interaction.

- **Vested Interests**: Normally every group has its own leader, whether elected or accepted by the group members. The leader may use the group as a means of satisfying has personal interests. A change in the organization may threaten the leadership of a group, especially that of informal groups.

III. Organizational and Management Factors:

At times, the organizational factors are responsible to resist changes in the organization. Organizations resist change due to the following factors:

- **Resource Limitations**: Every organization needs to adjust to changes in the external environment. For instance, if there are technological changes, which need to be introduced in the organizations for the better performance, organizations may find to difficult to introduce technological changes due to resource constraints.

- **Stability of Systems**: Organizations tend to develop certain system, which bring benefits to the organization. The organization may be so used to the system that it may find it difficult to replace with new and better system, even though the new system may bring better results than the existing one.

- **Traditional Management Philosophy**: traditional managers do not like to introduce changes in the organization. They are content with the present performance of the organization.

- **Problem for Responsibility**: Managers are held responsible for the outcome of changes, if introduced. Every change is associated with some degree of risk. There is no guarantee that change introduction would bring positive results.

3.4.4 Overcoming Resistance to Change

Management has to overcome resistance to organizational change. It is a real challenge to overcome resistance to change in the organization. Employees may be forced to accept the change imposed on them as a result of formal authority of management. However, they may not give their willing support, and commitment in implementing the change in the organization. The following are the various ways to overcome resistance to organizational change:

- **Employee's participation**: The management should secure involvement of the employees who would be affected by the change through continuous interaction. This would involve explanation then discussion the proposed changes. The management should find relations, opinions and suggestions of the employees in respect of the proposed changes in the organization. Such interaction is a trust building exercise. As the interaction continues, the level of resistance to change may decline, and personal involvement in the change process increases.

- **Group Dynamics**: Changes can not only affects individual members, but also the groups in the organization. Therefore, the management should understand the impact of group dynamics. The management may find out the influencing members of the group and through them may introduce the change in the organization.

- **Competent Leadership**: Managers should have strong leadership skills to influence the employees to willingly accept the changes in the organization and work for the accomplishment of organizational goals. An effective e leader presents change on the basis of impersonal requirements rather than on personal grounds.

- **Sharing of Rewards**: Management should promise sharing of rewards arising out of the proposed change. When employees are assured of rewards they would be willing to accept and implement the change in the organization. Employees need to be provided both with monetary and non monetary incentives. Employees not only appreciate increase in pay or promotion, but also development o few skills, better working conditions, recognitions from management etc.

- **Employees Security**: Existing employee's security must be protected. Management must guarantee workers protection from reduction in earning when new technology is introduced in the organization. The organization should also protect seniority rights, opportunities for promotion, and other such benefits.

- **Education and Communication**: Management can introduce change successfully in the organization through education and communication. Effective communication is required for gaining support for change. Even if the proposed change affects one or few persons in the group, all the member of the group must be informed of such changes, so as to gain group support if need arises.

- **Training and Counseling**: Management can introduce training programmers so as to upgrade knowledge, skills and attitudes of the change and it's working. At time management may provide psychological counseling to develop a positive attitude towards change.

- **Union Consultants**: Management should consult the workers union in introducing the change in the organization. Union representatives should be involved before the change is introduced in the organization. Such involvement is required not only to avoid resistance but also to secure willing cooperation and commitment of the workers toward the changes in the organization

3.5 CORPORATE RENEWAL

Corporate Renewal strategy is also known as turnaround strategy. This strategy helps to transform underperforming organizations to achieve short term profitability and long run success. Today's increased competition, cyclical and volatile financial markets, and economic trends have created a climate in which no business can take stability for granted.

Turnaround is possible only when the company restructures its business operations. Turnaround strategy is broader strategy and it can include investment strategy – where a firm decides to divest or get out of certain business and sells off certain units or divisions.

The essentials of Turnaround strategy are as follows:

1. **Effective Leadership**: To make Turnaround successful, there is a need to have good leadership at all levels, especially at the top level management. The CEO needs to be committed and dedicated to the organization. He needs to be a dynamic person with creative skills to handle the turnaround situation.

2. **Proper Review of the situation**: The turnaround team needs to conduct a proper review of both the internal and external situation affecting the firm.
   The turnaround team should review:
   - Competitor's strategies.
   - Market position of the company in terms of market shares, sales, etc.
   - Performance of the various departments.
   - Government policies affecting the firms.

3. **Support from various parties**: To make turnaround effective, there should be good support from various parties such as employees, suppliers, dealers, shareholders, government authorities, etc.

4. **Availability of Resources**: There must be availability of required resources to make turnaround effective. The turnaround team needs to analyze both internal and external environment.

5. **Planning and Control**: There must be proper planning and control of various operations. The turnaround team needs to analyze both internal and external environments.

6. **Proper Communication**: There must be good communication throughout the organization. Any information relating to turnaround strategy to the concerned departments or persons must be quick, clear and complete.

7. **Viability of Business**: Turnaround strategy is possible only when there is viability of business. One cannot revive a business which has no prospects.

8. **Long Term approach**: Firms must undertake turnaround strategy not only from short term point of view, but also from long – term point of view.

Steps in Turnaround Strategy

To manage turnaround strategy, and to make it successful, the following are the steps that may be followed by business firms:

1. **Setting up of a Turnaround Committee**: The business firm may set up a turnaround committee or a team to deal with the turnaround strategy. The committee may involve top management personnel, consultant, and may include employees' representative.

2. **Identifying the Causes of Losses**: The turnaround team has to identify the possible causes of losses. The losses may be due to internal factors or external factors or both.

The internal factors may be:

- Entry in non viable business.
- Excessive manpower due to poor manpower planning
- Focus on several product lines or brands.
- Use of outdated technology.

The external causes may be:

- Improved practices or strategies of the competitors
- Changes in Government policies
- Changes in customers' preferences, tastes, etc.

3. **Detailed investigation of causes**: The turnaround team needs to make a detailed analysis of the various causes. The turnaround team may undertake the following activities:

- Discussion with workers to know the problems and to get their support.
- Consumer research may be conducted to know their reactions towards company's products and services.

4. **Alternative Solutions**: The team must look for alternative solutions to overcome the problem of poor performance. The alternatives solutions may be:

   - Downsizing of work force
   - Debt equity swap to reduce interest burden
   - Divestment of unviable or non – core business unit
   - Focusing on profitable customers, etc.

5. **Analysis of Alternatives**: The turnaround committee must analyzed the various alternatives. There must be analysis of benefits and costs of every alternative solution or strategy. The analysis of benefits and costs must be undertaken not only from short term perspective but also from long term point of view.

6. **Selection of Best Alternatives**: The team may select a proper mix of alternatives. The team may select two or three alternatives out of the several listed. The choice of the best alternatives depends upon the causes of poor performance and the current situation.

7. **Communication of Turnaround Strategy**: The management must communicate the turnaround strategy to the employees, shareholders, and the concerned stake holders. Effective communication will receive support from the stake holders for implementation of the turnaround strategy.

8. **Organization and Allocation of Resources**: The Company needs to organize the resources required to implement the selected strategy. In case of divestment, the firm will get the capital resources from the sale of the unit or product line.

9. **Implementation**: The Company needs to get good support from the employees, shareholders and financial institutions to make the turnaround strategy successful. There must be a continuous dialogue between the turnaround team and employees

10. **Review**: The turnaround strategy needs to be monitored at different phases. Monitoring of implementation is a must to ensure early revival. If required, the company may adopt additional measures to overcome the turnaround strategy.

3.6 ORGANIZATIONAL FAILURES – CAUSES

Most business failures are due to internal and external causes.

I. Internal causes of Organizational Failures:

1. **Ineffective Management style**: The CEO or the founder of a company is often is reluctant to delegate authority or refuses to do so. The CEO may lack trust or faith in the subordinate managers. This may lead to poor relationship between the CEO and the rest of the management team.

2. **Over – diversification**: The business may resort to unwarranted diversification to reduce risk. However, over diversification may lead to overburden on functional areas such as production, marketing finance and HRM.

3. **Weak Financial Position**: A company may face financial problems due to various reasons which may lead to downfall of the organization. The financial problems may be due to the following cases:
   i) Poor Management of working capital
   ii) Poor management of fixed capital
   iii) Defective credit policy
   iv) Lack of retained earnings

4. **Marketing Problems:** A Company may become sick due to marketing problems. Some marketing problems include:
   i) Poor product design
   ii) Defective pricing strategy
   iii) Ineffective promotion mix
   iv) Faulty distribution strategies

5. **Defective HRM:** A firm may adopt defective HR policies and practices. The HRM problems may be due to the following causes:
   i) Poor manpower planning
   ii) Faulty recruitment and selection
   ii) Faulty placement of employees
   iii) Lack of training and development

6. **Poor Production Policies:** A firm may suffer losses on account of poor production processes and practices such as follows'
   i) Lack of Production planning and control
   ii) Faulty inventory management
   iii) Lack of quality control
   iv) Lack of emphasis on R & D

II. External causes:

1) **Government Policies**: At times, changes in Government policies may have an adverse effect on the domestic firms. For instance, government may liberally allow foreign firms to enter the Indian markets, and as such the domestic firms may have to face heavy competition.

2) **Poor financial climate:** The poor financial climate may prevail in the economy due to recession in the market. Therefore, business firms may find it difficult to obtain funds from banks and financial institutions

3) **Malpractices by Competitors:** the competitors may adopt malpractices to malign the name of the other organizations. Some of the malpractices include:
   a) Duplication of products
   b) Unethical comparative advertising and publicity
   c) Pressurizing the dealers not to stock the products of the other organization
   d) Pressurizing the suppliers to delay the supplies or to supply poor quality of materials to other organizations etc.

4) **Other external causes:** There are several other external causes that can have adverse effect on the business firms. Some of such causes may include floods, earthquakes, wars and other calamities. Recession in the international markets may also have an adverse effect on the working of business organizations.

3.7 ORGANIZATIONAL CULTURE

Corporate culture is the combination of values, attitudes, beliefs, and expectations which are learned and shared by an organization member and transmitted from one generation of employees to another. The organizations culture generally reflects the values and beliefs of the founder and the mission of the firm. It gives a sense of identity to the organizations members – This is who we are. This is what we do. This we stand for.

- **The main features of organizational culture are as follows:**

1. Organizational culture is a combination of social, cultural, physical, psychological and other conditions within an organization.
2. It influences the motivation, attitudes, behavior and performance of the members of an organization.
3. The organizational culture evolves over a fairly long period of time.
4. It is invisible and abstract, although it is perceived and experienced by the members of an organization.
5. Organization culture can bring name and goodwill to the organization.
6. It can provide opportunities and threats to its members.

- **The main dimensions or constituents of organizational culture are as follows:**

1. The plans and policies of an organization.
2. The rules and regulations of the organization.
3. The goals, priorities, values and beliefs of an organization.
4. The competence and character of the top management of the organization.
5. The facilities and treatment to the employees in the organization.
6. Style of leadership followed by the members in the organization.
7. Reward and recognition structure in the organization.
8. Approach of the organization in resolving conflicts within and outside the organization.
9. The dominant orientation of the company, such as research and development.

10. The informal work rules that employees follow without question.

From the above dimensions it is clear that organization culture is a holistic or an integrated systems concept. It consists of all facets of the organization.

- **Functions of Corporate Culture:**

Corporate culture performs certain important functions in an organization;

1. It conveys a sense of identity for employees.

2. It helps to generate employee's commitment to the objectives of the organization.

3. It brings stability to the organization due to the commitment of the employees.

4. It serves as a frame of reference for employees to undertake activities of the organization.

5. A strong culture not only promotes survival and stability, but it also creates the basis for competitive position.

3.8 MANAGEMENT OF STRATEGIES AND CULTURE

Every company has a unique organizational culture. Every organization has its own values, attitudes, beliefs, business practices and personality that define its corporate culture. For instance, the foundation of Tata Group's culture is its dedication to customer satisfaction, zealous pursuit of excellence and a strong work ethic.

Strategy and Culture:

A strong culture is needed for implementation of the corporate strategy. Culture needs to be aligned with the strategy. The culture-strategy alignment helps to develop a committed and dedicated work force. A culture - strategy alignment helps to influence employees in performing organizational tasks in two ways:

1. A work environment where culture is conducive for effective implementation of strategy provides a system of informal rules a

deeper pressure to perform effectively towards the successful implementation of the strategy.

2. A strong strategy supportive culture motivates employees to perform organizational tasks effectively. It provides a strong value system to perform, and it promotes employee identification with the company's mission, performance targets and the strategy.

Managing Culture and Strategy Relationship:

The strategy formulators need to select a strategy that is compatible with the corporate culture. The strategy implementers need to change any element of the corporate culture that hinders strategy implementation.

Once a culture is established, it is difficult to change. Changing a problem culture is difficult because most employees cling to old and familiar beliefs and values.

The top management must first diagnose the elements of present culture that hamper strategy implementation. The communication must be followed quickly by visible and aggressive actions to modify the culture. Every member must understand that the actions are intended to establish a new culture in order to align with the corporate strategy.

Some of the actions would include:

- Communicating to all members of the organization the need for cultural change and the benefits to all concerned.
- Replacing key managers who are deeply associated with the old and problematic culture.
- Recruitment and selection of new managers and employees who have the desired cultural values and serve as a role model for the desired cultural behavior.
- Changing long standing policies and practices that impede the new initiatives and strategy.
- Special monetary incentives to reward the desired cultural behavior.

3.9 STRATEGIES FOR FOREIGN DIRECT INVESTMENT

Foreign Direct Investment (FDI) is a long term direct investment in business in a foreign country by an individual or a company of another country, either by buying a company or through equity participation or by expanding operations of an existing business in a foreign country.

FDI differs from portfolio investment, in that portfolio investment is generally short term passive investment in the securities of forms in foreign country.

- **FDI brings certain benefits to the host country such as:**

    1. Capital inflows which improve capital account balance and if there is a tie up with local firms, the local firms can use the capital for expansion and modernization.

    2. Skills development through training and development by the foreign firm.

    3. Transfer of technology by the foreign investing firm.

- **There are various strategies for attracting and promoting FDI:**

1. **Green filed Investment**: A foreign firm may invest fresh equity capital investments by setting up a new firm a foreign country. This may be in response to the initiatives taken by the Governments of the country where FDI is invested. For instance, the Government may encourage FDI by increasing the FDI limits. AT present 100% FDI is allowed in sectors like hotels and tourism industry, export sector, pharmaceutical sector, telecom sector, etc.

2. **Reinvestment of earning**: Several countries encourage reinvestment of earning by foreign firms by providing special incentives such as tax benefits. This strategy does not result in outflow of foreign exchange by way of dividend of transfer of profits. This strategy adds to the host countries capital stock and as such the productive capacity increases.

3. **Intra-company Loans**: Usually this strategy is followed by parent company when it provides additional funds to its subsidiary by way of loans. Initially this strategy may lead to foreign capital inflows which can be used by the subsidiary for expansion and modernization. However, this strategy may require larger outflow of capital by way of interest payment and repayment of loans by the subsidiary to the parent firm.

4. **Mergers and acquisitions**: AT times, the Government of the host country may attract FDI through merger and acquisition route. Generally, it is not most desirable mode of FDI unless FDI is crucial to the success other privatization of a loss-making public enterprise, or in the case where the merger of a domestic company with a foreign company takes place on equal terms.

5. **Non – equity forms of FDI**: These may involve arrangements in the form of subcontracting, licensing, franchising, etc. Such arrangement may not involve capital flows from abroad. However, such arrangements contribute to the development of the host country's economic growth and development.

3.10 STRATEGIES FOR COMPETING IN INTERNATIONAL MARKETS

There are several strategic options for a firm that decides to expand outside its domestic market and compete globally.

1. **Joint Ventures**: A business firm may enter into a joint venture with foreign forms as the main strategy for entry in foreign markets. Joint ventures have several advantages over other strategies. The firm can easily adapt to cultural variations in foreign markets with the help of its overseas partner.

2. **Franchising strategy**: Certain firms may adopt franchising route to enter in foreign markets. Franchising is a contract between two parties, especially in different countries involving transfer of rights and resources. The franchisor enters into a contract with the franchisee, whereby the franchisor agrees to transfer to the franchisee a package of rights and resources such as: Production process, loans and equity participation, patents, trademarks, brand names, product ingredients, etc.

3. **One country production base**: A firm may maintain one country production base, preferably in the domestic market, due to various location advantages such a s low-cost labor; or availability of cheap materials. However, the distribution could be done in several world markets.

4. **Licensing**: Licensing makes sense when a firm with valuable technical know-how or a unique patented product has neither the organization capability nor the funds to enter foreign markets. This strategy also becomes important if the host country makes entry difficult through investment.

5. **Production sharing**: this concept of production sharing was developed by Peter Drucker. It combines professional skills and technology available in the developed countries with the low-cost labor available in developing countries.

6. **Acquisitions**: it involves purchasing another company already operating in a foreign country / market where the firm wants to enter. Synergetic benefits can result if the firm acquires a unit with strong goodwill and good distribution network. Research indicates that wholly owned subsidiary is more successful in international markets as compared to joint ventures.

7. **Green field development**: Firms may go green field development project. It involves setting up manufacturing plant and distribution system in other countries. It allows a firm more freedom in designing plant, selecting its own workforce and choosing right suppliers and dealers.

8. **Turnkey operations**: They are contracts for the construction of operating facilities in exchange for a fee. The facilities are transferred to the host country or a firm when they are completed. The client is usually a government agency that requires a particularly product to be produced locally under its control.

9. **BOT concept**: The Build, Operate, Transfer Concept is a variation of Turnkey operation. Instead of turning the facility over to the host country when completed, the company operates the facility for a fixed period of time during which it earns back its investment, plus a profit.

10. **Global Strategy**: In this case, the firm adopts standard strategy across all global markets. The same competitive approach is used in all countries / markets where the firm has its presence. For instance, a firm may adopt premium pricing strategy world wide as in the case of Mercedes Benz or a company may adopt low-cost strategy worldwide and accordingly charge low price in all the global market.

3.11 EXPORT MARKETING STRATEGIES

There are several reasons as to why companies expand into foreign markets. The main reasons are:

- To gain access to new customers.
- To achieve lower costs and to improve the firm's competitiveness.
- To capitalize on its core competence.
- To spread its business risks across a wider market base.

Normally, the initial strategy followed is production at home and distribution in overseas markets through overseas distributors.

The primary functions performed in overseas markets involve mainly selecting a network of distributors and dealers and undertaking sales promotion and brand awareness activities.

I. Product Design Strategies

A manufacturer may adopt any or the following product design strategies:

- **Product innovation**: A new product may be launched only for overseas market, which is quiet rare.
- **Product Modification**: The domestic product may be modified to accommodate overseas buyers' tastes and preferences.
- **Product Standardization**: The domestic product may be marketed abroad without any modifications.

II. Pricing Strategies

As far pricing strategies are concerned, an exporter may adopt any of the following strategies:

- **Skimming Pricing**: Where high price is charged when the product is launched in the market as in the case of innovative products.

- **Penetration Pricing**: Where low price is charged when product is launched to gain market share.

- **Differential Pricing**: Where different prices are charged in different markets depending upon market and competitive conditions.

- **Standard Pricing**: Where the same price is charged in all the global markets, which is quite rare.

III. Distribution Strategies

The manufacturer may also adopt distribution strategies as follows:

- **Direct exporting:** Where the manufacturer directly exports the goods to overseas buyers.

- **Indirect exporting**: Where the manufacturer exports through intermediaries such as star export houses or merchant export houses.

IV. Promotional Strategies

The exporter also needs to adopt suitable promotion strategies:

- **Standard Promotion Strategy**: Where the same promotion mix is used in all the global markets and with the same promotional theme.

- **Differential Promotion Strategy**: Where the different promotion mixes is used depending upon market and competitive situation and with different promotion theme.

3.12 SUMMARY

Corporate restructuring is the process of redesigning one or more aspects of a company. The process of reorganizing a company may be implemented due to a number of different factors, such as positioning the company to be more competitive, survive a currently adverse economic climate, or poise the corporation to move in an entirely new direction. Here are some examples of why corporate restructuring may take place and what it can mean for the company.

Restructuring a corporate entity is often a necessity when the company has grown to the point that the original structure can no longer efficiently manage the output and general interests of the company. For example, a corporate restructuring may call for spinning off some departments into subsidiaries as a means of creating a more effective management model as well as taking advantage of tax breaks that would allow the corporation to divert more revenue to the production process.

In this scenario, the restructuring is seen as a positive sign of growth of the company and is often welcome by those who wish to see the corporation gain a larger market share.

3.13 QUESTIONS:

Q.1.Discuss the need and different forms of corporate restructuring

Q.2. Write a note on BCG Matrix

Q.3. Write a note on General Electric Business Screen Portfolio analysis technique.

Q.4.Discuss the TOWS matrix

Q.5.Write a note on DPM matrix

Q.6. Write a note on SPACE as a technique of portfolio analysis

Q.7. Write a note on Profit Impact of Market Strategy Model

Q.8. Explain the process of management of strategic change

Q.9. discuss the steps involved corporate renewal or turn around strategy

Q.10. what are the causes of resistance to strategic change

Q.11. what are the measures to overcome resistance of strategic change

Q.12. Write a note on organizational culture

Q.13. Write a note on strategies relation to FDI in India

Q.14. Describe the strategies for competing in international markets

Q.15. Discuss the internal and external causes of organizational failures in India

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4

NEW EMERGING STRATEGIES IN INFORMATION COMMUNICATION TECHNOLOGY (ICT)

Unit Structure

4.0 OBJECTIVES

After studying this unit the student will be able to -

- Understand the concept of Outsourcing.
- Understand the meaning of Management information system
- Know Barriers to successful development of strategic MIS system
- Know the Re - Engineering Business Process
- Understand Emerging Strategies in Tele Communication Sector
- Explain virtual companies meaning and features

4.1 INTRODUCTION

Outsourcing became part of the business lexicon during the 1980s. There is a strong public opinion regarding outsourcing (especially when combined with off shoring) that outsourcing damages a local labor market. Outsourcing is the transfer of the delivery of services which affects both jobs and individuals. It is difficult to dispute that outsourcing has a detrimental effect on individuals who face job disruption and employment insecurity; however, its supporters believe that outsourcing should bring down prices, providing greater economic benefit to all.

Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company.

The decision to outsource is often made in the interest of lowering firm or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labor, capital, (information) technology and resources

4.2 CONCEPT OF OUTSOURCING

Outsourcing is an arrangement in which one company provides services for another company that have usually been regarded as intrinsic in managing a business. In some cases, the entire information of a company is outsourced, including planning and business analysis as well as the installation, management and servicing of the network and workstations.

4.2.1 Examples of outsourcing are :

1) Outsourcing of Municipal Corporation for waste collection.

2) Outsourcing of business process.

3) Outsourcing of specialized knowledge such as R & D.

4) Outsourcing of after sales service in case of consumer durable, office equipment etc.

4.2.2 Strategic Reasons of Growing Outsourcing in India :

India holds 65% of the global offshore outsourcing and continues to remain the world’s favorite destination for outsourcing.

It has gained global confidence with major players such as Cisco, oracle Hewlett - Packard and many make Mr. Win Elfrink (Cisco systems) he says “we believe that India is the hub of the world where ICT sector is concerned.”

4.2.3 Reasons are as follows :

1) Focus on core activities :

Outsourcing enables a business firm to concentrate on core activities such as customer relationship, product development and other activities this bad to operational excellence and to gain competitive advantage in the market.

2) Production in operation costs :

Outsourcing may enable a firm to reduce its operational costs. For example a company may lower a amount to the third party to provide certain services than if activities are undertaken with in house employees.

3) Tower Investment :

Outsourcing enables a firm to reduce fixed capital investments. For example in case of BPO (Business Process Outsourcing) the premises are owned by BPO owner. Therefore the outsourcing from need not invest in certain fixed assets.

4) Facilitates Quick Delivery :

In certain firms, the production of certain items as outsourced. The third party that produces on behalf of the firm would make every possible effort to produce on time.

5) Specialized Services :

At times, outsourcing may enable a firm to obtain specialized services from exports for example in case of legal process outsourcing a foreign firm can obtain specialized services from Indian legal exports and that too for lower fees.

6) Target Customer Base:

Outsourcing enables a firm to focus on core activities and get the advantage of specialized services and in a better position to provide quality services and also charge lower prices due to lower charges charged for services by the form which provides outsourcing services. This lead to customer satisfaction and larger customer base.

8) India's Technical and Professional Talents:

India has large number of spilled and talented human resources the country has 1.2 billion population and over 30 lakh graduates are added to workforce every year. It also holds the distinction of being the largest English speaking nation in the world which attracts company to outsource.

4.3 MANAGEMENT INFORMATION SYSTEM:

4.3.1 Meaning:

Communication is essential to carry managerial functions and to link the enterprise with its external environment customer's dealers, suppliers, investors and others.

H. Weifrich and H. Koontz defines MIS as "a formal system of gathering, integrating, comparing and analyzing and dispersing information internal and external to the enterprise in a timely effective and efficient manner".

4.3.2 Features of MIS

1) Systematic Process :

MIS involves a systematic process of gathering, integrating, comparing and analyzing information for effective decision making.

2) Scope :

Originally, MIS was used for electronic data processing (EDP). It provides information for forecasting sales, tracking inventories, tracking accounts payable and receivables and other data that would help managers in managing the enterprises.

3) Components :

MIS is a computer system used for managing five primary components. Hardware, software, data, procedure and people.

4) Types of Data base :

Organizations use MIS to store data. It stores data in one or two database systems like relational data base and hierarchical data base.

5) Report Generation :

MIS used not only to store data but also to generate reports. When prompted by the user, the system complies the report required, inserting the data into the template and then printing the report for decision making.

6) Accessibility and Integration :

Open access means that the primary MIS can be connected or integrated with other system within the organization. It enables to make changes to data from different locations.

7) Professional Approach :

There is a need to adopt professional approach toward MIS. The organization must select and train the MIS staff for collecting, classifying, combining analyzing and transmitting systematically to managers to take appropriate decision.

8) Continuous in Nature :

The MIS activity is continuous in nature. There is a constant need a collecting analyzing data relating to environment such as competitors strategies, govt. policies, consumer requirements etc.

4.3.3 Barriers to successful development of strategic MIS system :

1) Traditional Management Philosophy :

The traditional managers are reluctant to adopt modern management system such as MIS. They consider this system as waste of money effort and time.

2) Resource Crunch :

Several organization face resource crunch even in case of professional managed companies. There is always a need to cut cost.

3) Lack of Trained Manpower :

There is often dearth of skilled manpower to handle MIS operations. As a result, organization may be reluctant to adopt strategic MIS and depend on traditional means of managing data.

4) High cost of employees training :

Properly trained employees form an vital element of MIS. The length and depth of training may vary making it difficult to estimate the cost of its training. MIS requires money cost as well as productivity loss during the training period.

5) MIS Flexibility :

Once MIS is installed in a company, it may prove to be an inflexible system. Making changes quickly to reflect fluctuating business operators may not be possible depending on the MIS style and functionality

6) Information Overload :

MIS that collects too much information can lead to the management problem known as the paralysis of analysis. Information overload may lead to the delay and anability of making right and timely decisions.

7) Problem of Data Collection and Analysis :

There may be a possibility of gathering inaccurate and faulty data and may be outdated as well. The problems of data collection and analysis may create barriers for successful implementation of MI?S in an organization.

8) Time factor :

That of time is required for creating and updating MIS, this may create delays in decision making as timely data may not be presented to decision makers.

4.3.4 Advantages of Information Technology :

Information Technology (IT) benefits the business world by allowing organisations to work more efficiently and to maximize productivity. Since computerized systems are widely used it is advantages to incorporate information technology into you organization.

The following are the advantages :

1) Storing and Protecting Information :

Information technology creates electronic storage system to protect a company's valuable records by allowing certain users with in a company to access, withdrew add or change the documents.

2) Automated Process :

Information technology improves a company's efficiency by developing a automated process which reduces a burden on staff which makes employees to work on other things.

3) Remote Access :

IT system provides remote access to the company's electronic network, so employees can work from home or during travel or other location which increases firms productivity.

4) Communication :

The IT system enables employees to connect with others via the email, video conferencing, equipment etc which provides efficient way to conduct business and communication.

5) Cost Effectiveness :

It brings cost effectiveness by helping to computerize business processors which ultimately gives vize to profits that means better pay to employees and less strenuous working conditions.

6) 24 × 7 Business Hours :

This means that business can be open any time and anywhere making purchases from different counties easier and convenient.

7) Competitive Advantage :

IT system gives competitive advantage to the users by enabling services providing quick and quality services to the customers making business firms more competitive.

8) Benefits to knowledge workers :

It systems can improve the performance of knowledge workers in customers, supplier and partner organizations; add information value to existing products and services.

4.4 RE - ENGINEERING BUSINESS PROCESS

4.4.1 DEFINITION

Business Process Re-engineering (BPR) is also known as business process re - design business transformation, or business process change management. Business Process Re-engineering (BPR) is more than just business improvising' it is an approach for re-design the way work is done to better support the organization's mission and reduce costs.

According to Hommor and Champy, "BPR is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary modern measures of performance, such as quality, cost, service and speed".

4.4.2 BPR success factors are as follows :

1) Organization wide commitment :

There is not doubt that major changes to business processes have a direct impact on process, technology, job roles and work place culture. Significant changes to one of them require resources, money, leadership which is an extraordinary task. Since BPR can involve in multiple areas it is extremely important to get support from all affected departments.

2) BPR Team Composition :

Once organization wide commitment has been secured from all departments involved in the re engineering effort and at different levels, the critical step of selecting a BPR team must be taken. The BPR team forms the nucleus of the BPR effort, major key decisions and recommendations, and helps communicate the details and benefits of the BPR program to the entire organization.

3) Business Needs Analysis :

Generally, BPR teams focus on technology without first assessing the current process processes of the organization and determining what exactly needs reengineering. Therefore, there is a need for business need analysis. In this analysis phase, a series of sessions should be held with process owners and stakeholders, regarding the need and strategy for BPR. This session identify essential goals for BPR within each department and then collectively define defectives for how the project will import each work graph or department on individual basis and the business organization as a whole.

4) Adequate IT Infrastructure :

Effective alignment of IT infrastructure and BPR strategy building an effective IT infrastructure, adequate IT infrastructure investment decision, adequate measurement of IT infrastructure effectiveness, proper information systems, effective reengineering of legacy IT, effective use of software tools are the most important factors that contribute to the success of BPR projects.

5) Ongoing Continuous Improvement :

BPR is a successive and ongoing process and should be regarded as an improvement strategy that enables an organization to make the move from traditional functional orientation to one that aligns with strategic business process.

6) Effective change Management :

Change management is the discipline of managing change as a process, with due consideration that employees are people, not programmable machines. An important step towards any successful reengineering effort us to convey an understanding of the necessity for change. It is a well known fact that organization do not change unless people change, the better change is managed, the less painful the transition us.

4.5 VIRTUAL COMPANY STRATEGIES

4.5.1 DFINITION

Virtual Organization (VO) is a temporary network of independent organisations that came together to exploit opportunities. In a virtual organization, companies can share costs and spells can have access to global markets with each participating from contributing its best capabilities.

VO can be defined as “a group of individuals or organisations with specialized core competencies, who work spontaneously together with the help of ICT to develop and deliver a product or service in the market to gain competitive advantage.

4.5.2 Features of virtual organization :

1) VO separate Entity :

Virtual organization does not create any separate entity. It does not have neither any head office or an organization chart. It operates through virtual team across participating organization.

2) Inter dependence :

The alliance members or organization are entirely dependent on each other during collaboration process. The participants in it complement each other by making it possible to deliver a product or complete a project collaboratively.

3) Information and Communication:

In VO, the use of ICT is substantially grater, thereby, reducing or eliminating the necessity of their physical presence for the transaction of business or for doing work collaboratively in order to realize common objective.

4) Geographic Dispersion of Participants :

In VO communication is taken care of by the ICT, Therefore, the geographic location of alliance members does not matter. It is possible to communicate with in seconds on a world wide scale with the help of ICT.

5) Temporary in Nature :

VO is generally temporary in nature. It gets disbanded once the goal is achieved. However, there may be regrouping of the individuals for upgrading the project or for another project in future.

6) Excellence :

VO can provide excellence in a particular product or project. It generates synergetic effect due to excellent team work.

7) Mutual Trust and Respect :

The alliance member need to have complete faith and trust each other. At the same time, the members much respect each others competencies. Trust and respect enhances efficiency of the VO.

8) Support from Top Management :

The top management of participating in VO must provide active support to the individuals. The top management may provide necessary facilities and incentives to the employees to take active part in VO.

4.6 KNOWLEDGE CREATING COMPANY

4.6.1 MEANING

In an economy where the only certainly is uncertainly, the one sure source of lasting competitive advantage is knowledge. When markets shift, technologies proliferate competitors multiply and products become obsolete almost overnight, successful companies are those that consistently create new knowledge, disseminate it widely throughout the organization and quickly embody it in new technologies and products. These activities define the "knowledge creating" company whose sole business is continuous innovation.

Two leading Japanese business experts Ikujero Nonapa and Hwiotaka Tapeuchi are the first to the success to Japanese countries to their ability to create new knowledge and use at to produce successful products and technologies. Peter Doukper calls it the "knowledge society" one that is different from the "industrial society" and one in which acquiring and applying knowledge will become pay competitive factors.

4.6.2 Aspects of Knowledge creation :

1) Organizational knowledge creation :

Creating organizational knowledge is much about experience and trial and error as it is about mental modeling and learning from others.

2) Knowledge Business :

Organization don't just process knowledge, they create it as well knowledge creation by the business organization has been virtually neglected in management studies.

3) Human Knowledge :

Explicit knowledge can be articulated in formal language including grammatical statements mathematical expressions, specification manuals and so forth. Tacit knowledge is hard to articulate with formal language.

4) Tacit Knowledge :

Knowledge expressed in words and numbers is only the top of the iceberg. It is highly personal and hard to formalize mapping it difficult to communicate and share with others.

5) Two Dimensions of Tacit Knowledge :

The technical dimension which contains the kind of informal and hard to ten down spells or crafts captured in the term know flow. A master craftsman is often unable to articulate what he knows.

6) Explicit / Tacit Distinctions:

The distinction between explicit and tacit is the pay to understanding the difference between western and Japanese approaches to knowledge. Explicit can be processed by computer but the subject and intuitive nature of tacit knowledge makes it difficult to process in any systematic or logical manner.

4.7 EMERGING STRATEGIES IN TELE COMMUNICATION SECTOR :

The telecom sector has been one of the fastest growing sectors in recent years. It is now the second largest telephone network in the world, after only China Tele density which shows the number of telephone per 100 persons was 76.75% at the end of October 2012. But with the growth of mobile telephony the number of landline telephone has declined from over 32 million as on end March 2012 to less those 31 million as on 31st October 2012.

Some of the strategies adopted by Govt. of India to promote telecommunication sector include.

1) Broadband Strategy :

Special efforts are being made to increase the penetration of broadband especially in rural and cremate areas. The govt. has approved a project cost of Rs. 20000 crore for creating National Optical Fiber network (NOFN) which will provide broad band connectivity to 2-5 lakh gramanchyat for various application like e-health, e-governance, e-education. The project is being funded under universal service obligation fund (USOF)

2) Rural Telephone Strategy :

Under another scheme for village Public Telephone at the end of November 2012 a total of over 5-8 lakh villages had been covered for providing broad band connectivity to rural and remote areas, the USOF signed an agreement with Bharat Sanchar Nigam Ltd. on January 20, 2009 under Rural Wire line Broadband scheme to provide wire line broad band connectivity.

3) Increase in FDI :

In July 2013, the Govt. of India has increased FDI in telecom sector from 74% to 100%. The main purpose is to encourage foreign investors to invest in the telecom sector, thereby promoting this sector. FDI brings certain benefits such as

a. Capital inflows for expansion and modernization.
b. Skill development through training by foreign firms.
c. Transfer of latest technology.

4) Right to Broadband Strategy :

The National Telecom Policy 2012 recognizes telecom sector including broadband connectivity, as a basic necessity like education and health and therefore this policy has introduced the concept “Right to Broadband”. This policy states the Govt. will make efforts to provide affordable and reliable broad band on demand by the year 2012 and to achieve 175 million connection by the year 2017 and 600 million by ear 2020.

5) Technology Strategy :

Advancement and innovation are being made in all sectors of telecommunication industry, wireless technology. Internet and satellite communication being the main parts of Telecom industry as investing heavily in technological innovation, and in the development of technology and innovation the growth rate is continuing at fast face and new value added products and services are during the consumer spending behavior.

6) One Nation Free Roaming Strategy:

The govt. of India has initiated the move towards one nation free roaming strategy. The National Telecom Policy 2012 states one of the objectives - To achieve one - full Mobile number portability and work towards one Nation Free Roaming. This measure would benefit the mobile customers and consequently expand the telecom sector.

7) Green Policy for Telecom Sector :

The Govt. of India initiating for enhanced and continued adoption of green policy in telecom and incentivize use of renewable resources for sustainability.

8) Take over strategy :

Firms operating in the telecom sector have adopted takeover strategy. There is an upward trend in the mergers and acquisitions in the Telecom sector that are happening throughout the world. The aim behind such merger is to attain competitive benefit in the telecommunications industry.

4.8 SUMMARY

Outsourcing is an allocation of specific business processes to a specialist external service provider. Most of the times an organization cannot handle all aspects of a business process internally. Additionally some processes are temporary and the organization does not intend to hire in-house professionals to perform the tasks.

In an economy where the only certainly is uncertainly, the one sure source of lasting competitive advantage is knowledge. When markets shift, technologies proliferate competitors multiply and products become obsolete almost overnight, successful companies are those that consistently create new knowledge, disseminate it widely throughout the organization and quickly embody it in new technologies and products. These activities define the “knowledge creating” company whose sole business is continuous innovation.

4.9 QUESTIONS:

1) What is outsourcing? Gives reasons for outsourcing to India.
2) What is MIS and explain its characteristics and its advantages?
3) Discuss the barriers to successful development of strategic MIS system.
4) Explain the success factors of business process reengineering and its advantages.
5) Explain virtual company and its nature.
6) Write a note on knowledge creating company.
7) Describe the emerging strategies in the telecom sector in India.

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5

DISASTER MANAGEMENT: THE DEVELOPMENT PERSPECTIVE, CONCERNS AND STRATEGIES.

Unit Structure

5.0 OBJECTIVES

After studying this unit the student will be able to -

- Understand the concept of Disaster Management.
- Know the Strategic Ways of Managing Disasters at the National, State, District Levels in India
- Know the Challenges of Disaster Management
- Understand the Economic Losses due to disasters-Issues and Strategies
- Explain Strategies to cope with Disasters

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5.1 INTRODUCTION

India has been traditionally vulnerable to natural disasters on account of its unique geo-climatic conditions. Floods, droughts, cyclones, earthquakes and landslides have been recurrent phenomena. About 60% of the landmass is prone to earthquakes of various intensities; over 40 million hectares is prone to floods; about 8% of the total area is prone to cyclones and 68% of the area is susceptible to drought. In the last decade, an average of about 6000 people lost their lives and about 30 million people were affected by disasters every year. The loss in terms of private, community and public assets has been astronomical.

5.2 DISASTER MANAGEMENT - MEANING AND FEATURES

5.2.1 MEANING

The term `Disaster’ owes its origin to the French word `Disaster’ which is the combination of two terms `des’ meaning bad or evil and `astre’ meaning `star’. The combined expression is `Bad or Evil Star’ In the earlier days, a disaster was considered to be the loss due to some unfavorable star.

The United Nations defines disasters as, “the occurrence of a sudden or major misfortune which disrupts the basic fabric and normal functioning of a society or community”.

The Webster’s Dictionary, defines disaster as, “any event that over whelms existing resources to deal with the event”.

5.2.2 CLASSIFICATION OF DISASTER

Disasters can basically be classified into two ‘Categories i.e.

1. **Natural Disasters** – such as

i) **Wind related** - Storm, Cyclone, tornado, Huricane, Tidal waves, **Storm surge.**

ii) **Water related** - Flood, cloud burst, Flash flood, excessive rains, Drought, Communicable diseases,

iii) **Earth related** - Earthquake, Tsunamis, Avalanches, Land slides, Volcanic eruptions.

2. Man-made Disasters:

Such as: war, battle, enemy actions, riots, Accidents of vehicles, Industrial accidents, Fire and Forest Fires. Nuclear explosion, Ecological disasters like deforestation, soil erosion air, water pollution, HIV / AIDS, Life Style diseases, Violence and so on.

5.2.3 FEATURES

Disaster is associated with following features.

1) Disruption to normal pattern of life. Such disruption is usually severe and may also be sudden, unexpected and wide spread and thus human beings remain in shock for a long period.

2) Human effects such as loss of life, livelihood, and property, injury, hardship, and adverse effects on health - physical as well as mental.

3) Effects on social structure such as destruction of or damage to infrastructure buildings, communication and other essential services leading to disruption of life and destination of the resources become scarce.

4) Community needs shelter, food, clothing, medical assistance and social care.

5.2.4 DISASTER MANAGEMENT

Disaster Management is a challenging task for which personnel of different specialization are required to work in teams. There is a need of Human Resource Development for personnel engaged in disaster management e.g. engineers doctors, architects, social workers, administrators etc. What is actually required is the team of dedicated workers who can work in team with complete understanding among themselves.

Disaster Management - involves the following aspects.

1) It needs to be professionalized.

2) Risk management to be brought to the centre stage in all disaster mitigation plans.

3) All efforts for disaster management to be based on hazard and vulnerability analysis.

4) Communities and local governments to be made aware of the hazards and the vulnerabilities.

5) Communities and local governments to be involved in formulating disaster management plans.

6) The primary responsibility for disaster management should be that of the State Government with the Union Government playing a supportive role.

7) Effective implementation of land use laws, building byelaws, safety laws and environmental laws.

8) Setting up a framework to co-ordinate the responses from different sections like donors, voluntary organizations, corporate bodies etc.

9) Special needs of women, children, elderly and physically challenged persons to be addressed.

Hence, it can be concluded that the impact of disasters can be lessened through advance planning, developing warning system as well as prompt implementation. It is essential to understand and practice all the techniques which can help in prevention, mitigation and rehabilitation.

5.3 DISASTER MANAGEMENT STRATEGIES IN GLOBAL CONTEXT

Natural disasters take place in all countries, developed as well as developing, all over the world. Every year, more than twenty natural disasters occur throughout the world. In last two decades, disasters have claimed more than three million lives and affected about one billion people. The frequency of natural disasters is many times more in Asia and Pacific region.

At the global level, there have been considerable concerns about natural disasters. Even as substantial scientific and material progress has taken place, the loss of lives and property due to disasters has not decreased. In fact, the human toll and economic losses have increased many fold. It was in this background that the United Nations General Assembly, in, 1989, declared the decade 1990-2000, as the International Decade for Natural Disaster Reduction with the objective to reduce loss of lives and property and restrict socio-economic damage through concerted international action, specially in developing counties. It would enable governments to focus on hazard vulnerability and risk assessment, disaster prevention, sustainable development, effective early warning systems, Sharing of knowledge and transfer of technology.

This has laid the basis for the shifting of focus from rescue and relief to preparedness and mitigation.

In May 1994 a major conference of the International Decade for Natural Disaster Reduction (IDNDR) programme was held which brought out a plan of action for disaster reduction called the yokohama Strategy. It made a case for an accelerated implementation of a Plan of Action with development of a global culture of prevention as a key component of the integrated approach to disaster reduction. The strategy emphasized on the need to increase awareness on the importance of disaster reduction policies, support to states from the International Community and evolving an integrated approach to disaster management in all spheres.

5.4 STRATEGIC WAYS OF MANAGING DISASTERS AT THE NATIONAL, STATE, DISTRICT LEVELS IN INDIA.

India is a vast country, experiencing major natural hazards like drought, floods, earthquakes and cyclones throughout its history of civilization. Naturally, the country developed its own practices and strategies for coping with the various natural calamities. Since independence in 1947, India has developed a nationwide relief administration in which state Governments have to play a leading role.

Disaster Management is primarily the responsibility of the State and Union Territory Governments. The Government of India supplements their efforts by providing financial and logistic support in case of disaster of exceptionally severe magnitude. Based on the recommendation of the Group of Ministers on Internal Security, the subject of disaster management (including man made disasters) was transferred from the Ministry of Agriculture to the Ministry of Home Affairs in Feb-2002 (except drought and epidemics which remain with the Ministry of Agriculture & Ministry of Health respectively) and the specific disasters have been allocated to other Ministries and Departments.

An additional Secretary in the Ministry of Home Affairs is designated as the Central Relief Commissioner. He provides the focal point for interaction with the State Governments and other Departments and agencies of the Union Government and for the implementation of the decisions of the Union Government. Now, as a national initiative, the representatives of the communities and the NGOs are invited in the operational and policy processes so as to achieve greater impact of mitigation and preparedness measures.

Disaster management occupies an important place in the country's policy framework as it is the poor and under privileged who are worst affected on this account.

5.5 CHALLENGES OF DISASTER MANAGEMENT AND GOVERNANCE IN INDIA.

Earth quakes and other disasters are a phenomenon which cannot be avoided altogether but advance planning can mitigate sufferings. With necessary precautions, research, analysis and documentation are also required. Concrete action plan is required to avoid miseries and sorrows which can be prevented.

The following are the issues which need to be addressed to lessen the burden of disasters.

1) Failure to comprehend the magnitude of damage and complexities in providing relief while organising rehabilitation.

2) While deciding an action plan, it has to be considered that occurrence of disaster affects not only the part where it occurs, but it has ramified influences in the rest of the society. Ignoring these ramifications may lead to serious imbalances. The entire approach should be holistic rather than chemical and partial.

3) It is generally ignored that different types of disasters require different types of responses. Even a similar type of disaster in a different setting, or at a different time, requires different type of response. In both the situations, generally cultural context is lost sight of and tailor made solutions are offered which fail to adequately meet the specific needs. Due attention should be paid to traditional technologies and cultural coping mechanisms.

4) There is invariably a failure to understand disaster in the broader context of development. Development may not cause

disaster but can certainly aggravate its impact if it is not environmentally sustainable. Similarly, a well thought out development strategy might work to minimize the impact of natural disasters.

5) Confusion and crisis are caused by lack of co-operation and interface between organisation both governmental and non-governmental involving relief at all levels. Attention needs to be paid to have better coordination between the administration and different sections of civil society.

6) There is generally a lack of sophistication in designing post disaster developmental strategies, particularly, the cultural factor is ignored and the local community participation is not fully ensured. In designing post disaster strategies, the role of social science must be recognized.

7) There exist inadequate criteria for programme evaluation of post disaster developmental activities. This is another area where social science intervention could be of considerable help.

5.6 ECONOMIC LOSSES DUE TO DISASTERS-ISSUES AND STRATEGIES

Disasters whether natural or man-made are causing a great loss to all sorts of life- human beings, animals, plants and resources Due to more and more urbanization and industrialization, natural disasters are occurring because of the disturbances in natural equilibrium caused by the greed and lust of human beings to exploit natural resources for their material benefits.

Disasters of all types e.g. earthquakes, floods, accidents, cloud bursts, cyclones, etc. have been occurring since times immemorial. However, their frequency, magnitude and area have increased many times in all parts of the word, in recent times.

5.6.1 Types of economic losses due to disaster:

The following types of economic losses are incurred due to different types of disasters.

1. Loss of crops and therefore scarcity of essentials like food and agricultural commodities.

2. Loss of employment opportunities in the area where natural disaster has taken place, particularly in rural areas.

3. Problems of health & diseases arising both from insufficient availability of the basic necessities causing malnourishment, hunger etc. or on the availability of good and hygienic drinking water.

4. Financial losses are caused to the farming community who is dependent on land. The natural disaster affect their ability to withstand hard conditions immediately following the occurrence of the natural disaster It also affects, their ability to recover well enough before the next-cropping season and to take full advantage of normal conditions which may prevail.

5. Impact on the industrial sector due to loss of production of raw materials, reduction in power generation etc.

6. The impact of the disaster on the cattle wealth.

5.6.2 Policy of the governments

For rapid progress towards appreciable reduction in the disastrous impact of natural hazards, the policy of the governments may include the following.

1. To invest in Global Observations and Early Warning Systems, and to give a boost to the science of observation and measurement on which the real progress depends.

2. To enhance the scientific content of prediction methodologies and reliability of forecasts.

3. To map the hazards on a large scale, and line the maps intimately with the process of Development Planning.

4. To encourage, closer partnerships with financial and legal institutions, insurance companies, and community based organizations and industry.

5. To create an all India Institutional Network, which can involve in Disaster Preparedness, Mitigation Management and Prevention.

6. To invest more on public awareness, education, training and human resource development in the areas of Disaster Mitigation.

5.7 STRATEGIES FOR PREVENTING DISASTERS AND PREPAREDNESS MEASURES

This protective process covers measures which enable governments, communities and individuals to respond rapidly to disaster situations and to cope with them effectively. Preparedness includes the formulation of viable emergency plans, the development of warning systems, the maintenance of inventories and the training of personnel. It may also cover search and rescue measures as well as evacuation plans for areas that may be at risk from a recurring disaster. Preparedness therefore includes those measures which are taken before a disaster takes place. They are aimed at minimizing loss of life, disruption of critical services and damage to resources when the disaster occurs. All preparedness planning needs to be supported by appropriate legislation with clear allocation of responsibilities and budgetary provisions.

Mitigation includes all measures taken to reduce both the effect of the hazard itself and the vulnerable conditions involved in it in order to reduce the scale of a future disaster. Therefore mitigation activities can be focused on the hazard itself. or the elements exposed to the threat. Examples of mitigation measures which are hazard specific include modifying the occurance of the hazard e.g. water management in drought prone areas, avoiding the hazard by settling people away from the hazard and by strengthening structures to reduce damage when a hazard occurs. In addition to these physical measures, mitigation should also be aimed at reducing the physical, economic and social vulnerability to threats and the underlying causes for this vulnerability.

5.8 STRATEGIES TO COPE WITH DISASTERS

There is no doubt that hazards are integral aspects of our environment. Disaster management is normally viewed as a post disaster mitigation focusing on rescue, relief and rehabilitation in the events such as earthquakes, cyclones, floods, droughts and fires. It has been realised that effects of disasters on human population can be mitigated if not avoided altogether, by integrating disaster prevention and mitigation with development planning.

Strategies to cope with disasters can be given as follows:

1) Effective and efficient administration and commitment by all i.e. Government, People and Voluntary organizations.
2) Treatment and care of victims through provision of goods and services and especially sympathy.
3) Restoration of essential services such as communications, water supply and power supply as early as possible.
4) Information and advice to the public.
5) Maintenance of public morale and motivation.
6) Counseling of victims and their relatives.
7) Measures for long-term rehabilitation.
8) Goods Inventory Management.
9) Monitoring at regular intervals.
10) Allocation of duties and responsibilities clearly to avoid ambiguity & duplication.
11) Provision of shelters for human beings & animals.
12) People's participation in their own welfare.

5.9 SUMMARY

Disaster means the occurance of a sudden and major misfortune that disrupts and damages namal functioning of a society or community in the form of loss of life and property. Such event can be natural and/or manmade. The natural disasters take place due to imbalance in the natural environment such as storm, flood, earthquake, drought etc. Manmade disasters are created by human beings because of imbalance in their behavior such as greed to acquire a get something, ignorance or negligence, and desire to get control over something. These can be war, riots, accidents of vehicles, deforestation, air pollution and so on.

Disaster management is a specialized and professional activity requiring the expertise of different professionals such as engineers, doctors, architects, social workers and administrators. The impact of disasters can be minimized through advance planning, developing, working system as well as prompt implementation Disasters especially natural disasters cannot be avoided altogether but advance planning can mitigate sufferings. With necessary safety precautions, research, analysis and documentation are also required. Concrete action plan is required to avoid lunge economic losses miseries and somas which can be prevented.

Disaster management is primarily the responsibility of the State Governments. The Government of India supplements their efforts by providing financial and logistic support in case of disaster of exceptionally severe magnitude.

While managing disaster, generally confusion and crisis are caused by lack of co-operation and interaction between governmental and nongovernmental/organizations giving relief at all levels. Also attention needs to be paid to have close links between the administration and different sectors of civil society. With strategies for preventing disasters and preparedness measures, governments, communities and individuals can respond rapidly to disaster situations to cope with them effectively. Mitigation vefors to all measures taken to reduce both the effect of the hazard itself and the vulnerable conditions involved in it in adder to reduce the scale of a future disaster.

5.10 QUESTIONS

1. What is disaster management? Explain Disaster Management Strategies in global context.

2. What are the strategies adopted at the National, State and District levels in India for managing disaster?

3. Explain Challenge and strategies of disaster management in India.

4. What are the economic losses due to disaster? How can they be avoided?

5. Write a note on 'Strategies for Preventing Disasters and Preparedness Measures.

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6

STRATEGIC ALLIANCES, CORPORATE STRATEGY AND CORPORATE GOVERNANCE

Unit Structure :

6.0 OBJECTIVES

After studying this unit the student will be able to -

- Understand the Meaning of Strategic Alliances, Types and Structures.
- Know the concept of Corporate Strategy, Corporate Level Strategies-Mergers and Acquisitions, Takeovers, Joint Ventures, Diversification, Turnaround, Liquidation
- Understand Relationship Between International Strategy and Corporate strategies
- Know Corporate Governance Principles and Practices in India

6.1 INTRODUCTION

Strategic alliances are common in business world. They are significant to achieve synergy. Strategic alliance leads to synergy due to sharing of resources and combined efforts of various parties. However, due to involvement of various parties, certain problems or difficulties can occur such as conflicts between parties, government interferon, delay in decision making, difference in values & culture, loss, unfair terms and conditions and so on.

6.2 MEANING OF STRATEGIC ALLIANCES, TYPES AND STRUCTURES

The term alliance can be derived from the word 'ally' or the old French word aligre which mean to associate with or to bind or to co-operate with another with some common cause or interest. An alliance therefore is an association that involves co-operation and collaboration and merging of complementary interests to achieve individual and mutual goals and objectives.

Strategic alliance is a relationship between corporations that is characterized by merging of complementary interests, the sharing of privileged information and meaningful collaboration and co-operation to achieve strategic goals and objectives. The strategic alliance may provide technical, operational and / or financial benefits to the corporations.

Strategic alliances include non-equity agreements, and joint ventures which undertake joint R & D, joint product - development, knowledge sharing, marketing and distribution sharing and joint quality control and research.

1 Types / Structure of Strategic Alliances :

Structure of a strategic Alliance refers to the formal arrangement by which work is co-ordinate between firms who are parties to the alliance. This structure defines the framework within which the activities take place.

The structure of strategic Alliances can be of different forms based on different criteria as given below.

a) Based on the parties to alliance :

i) Horizontal Strategic Alliance - In this type, two or more firms in the same industry, collaborate with each other.

ii) Vertical Strategic Alliance - In this type, the firms integrate backward or forward with either supplier or marketing firm.

iii) Intersectoral Strategic Alliance - In this type, the firms belonging from different industries collaborate with each other.

b) Based on financial involvement :

i) Non - Equity Strategic Alliance - Non - Equity Strategic Alliances can range from close working relations with suppliers, outsourcing of activities or licensing of technology, sharing of R & D, industry clusters and innovation networks. Informal alliances without any agreements, or based on 'Gentlemen's agreement are common among smaller companies and within university research groups.

ii) Equity Strategic Alliance - In this type, the companies invest in each other's equity, making the parties shareholders as well as stakeholders in each other. The cross shareholding of companies may result in a complex network where company. A owns equity in Company B that owns equity in C, creating direct and indirect ownership.

iii) Joint - Venture Strategic Alliance - Joint ventures are distinguished from other types in that the participating companies usually form a new and separate legal entity in which they contribute equity and other resources such as brands, technology or intellectual property. The parties agree to share revenues, expenses and control of the new company for one specific project only or a continuing business relationship.

c) Based on Participation of the Government :

i) Host - Country's Government - It acts as local partner in strategic alliance. Such strategic alliances are effective in socialist - countries.

ii) Public - Private Venture - This involves partnership between a government and a private company This type of Strategic Alliance is created under the following circumstances –

a) When a country allows entry of foreign companies only through Strategic Alliances with the government.

b) When the priority of the Government for development matches with the competence of a private company.

c) Firms can enter centrally controlled economies like China and Sweden only through Strategic Alliances with the Government.

iii) Private Partners - In this case private companies enter into Strategic Alliance agreement.

6.3 PROBLEMS IN INDIAN STRATEGIC ALLIANCES

Strategic Alliances are common in business world. They are significant to achieve synergy. Synergy means increased effectiveness or achievement gained by combined action or co-operation. Strategic Alliances provide synergy due to sharing of resources and combined efforts of different parties.

However problems or difficulties in the operations of Strategic Alliances can occur due to the following reasons.

1. **Conflict between Partners -** Joint ownership can result into conflict between Partners. Conflict is more common when management is shared equally. In such case, neither partner's managers have the final say on decisions. This problem can be solved by establishing unequal ownership whereby one partner maintains 51% ownership and has the final say on decisions.

2. **Government Interference -** The loss of control over a joint venture's operations can result when the local government is a partner in the Strategic Alliance. This situation occurs in industries considered important to national security such as broadcasting, infrastructure and defense. The profitability of the Strategic Alliance could suffer because the local Government would have motives that are based on national interest, which may compel them to interfere in the operations of the Strategic Alliances.

3. **Delay in Decision Making -** Decision making is normally slowed down due to involvement of a number of parties. This may lead to inefficient - operations. Opportunities may be lost which may affect the growth of the business.

4. **Differences in Work Culture** - The work culture of the companies forming Strategic Alliances are different. MNCs who generally are parties to the Strategic Alliances are profit centered. All decisions are taken from economic angle. This may conflict with the culture of the local company it's decisions may be socially oriented. This may make functioning of the Strategic Alliances difficult.

5. **Losing of Secrecy** - There is a risk of losing control over proprietary information, especially regarding complex transactions requiring extensive coordination and intensive information sharing.

6. **Expensive and Time Consuming** - The procedure for formation of Strategic Alliances is lengthy, complicated and time consuming. The formation of Strategic Alliance can increase costs because of the absence of a formal hierarchy and administration within the strategic alliance. Even costs can rise due to the element of hidden costs and activities outside the scope of original agreement and inefficiency in management.

7. **Problems Due to Changes in Government Policies** - The changes in government policies relating to foreign exchange and technology transfer may create problems in the formation of Strategic Alliances.

8. **Unfair Terms and Conditions** - The terms and conditions laid down in the agreement may not be fair and reasonable to both partners.

   Thus, there are several risks and limitations associated with Strategic Alliances. Failures are often caused due to lack of mutual trust and confidence, unrealistic expectations, lack of commitment, cultural differences, and so on.

6.4 MEANING OF CORPORATE STRATEGY, CORPORATE LEVEL STRATEGIES-MERGERS AND ACQUISITIONS, TAKEOVERS, JOINT VENTURES, DIVERSIFICATION, TURNAROUND, LIQUIDATION

6.4.1 Meaning of Corporate Strategy.

A business organization operates under the influence of various environmental forces / factors. In order to survive and grow, an organization has to constantly interact with various environmental forces and adapt and adjust it's strategies accordingly. So environmental and organizational analysis acts as the foundation for generating strategic alternatives that an organization can consider for adoption.

The corporate level strategies refer to identifying the businesses the company shall be engaged in. They determine the direction that the firm takes in order to achieve its objectives. For a small business firm, the corporate strategy can identify the courses of action for improving profitability of the firm. In case of the large firm, the corporate strategy means managing the various businesses to maximize their contribution to the achievement of overall corporate objectives.

Corporate level strategy is concerned with two main questions :

1) What business areas should a company deal in so as to maximize its long term profitability?

2) What strategies should it use to enter into and exit from business areas? In other words, corporate level strategies are basically about decisions related to allocating resources among the different businesses of a firm, transferring resources from one set of businesses to others and managing a portfolio of businesses in such a way that the overall corporate objectives are achieved.

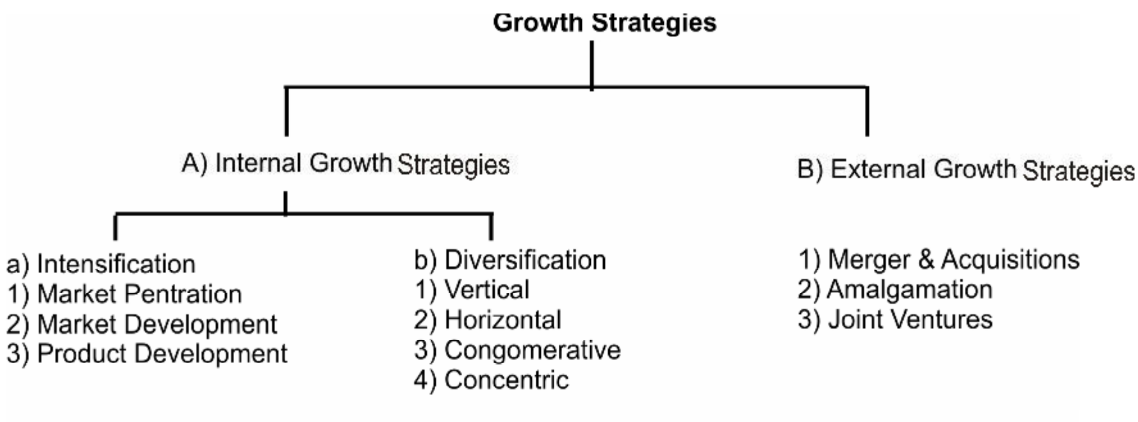
6.4.2 Corporate Level Strategies :

There are four generic ways in which corporate level strategy alternatives can be considered a) stability b) growth c) retrenchment and d) combination. Firms take into consideration these strategy alternatives while formulating their corporate strategies because only through generic strategies, they can locate the particular route best suited for achieving the chosen objective.

a) <u>Stability Strategy</u> - When a company finds that it should continue in the existing business and is doing reasonably well in that business and there is no scope for significant growth, the stability strategy is used.

b) <u>Growth Strategy</u> - When growth strategy is adopted, it can lead to addition of new products / or new markets or functions. Even without a change in business definition, many firms undertake major increases in the scope of activities. Growth is usually considered as the way to improve performance in terms of market share, sales turnover and profitability of the firm.

Growth strategies can be given with the help of the following chart.



It is possible for the firm to grow through the use of a) Internal and b) External growth strategies.

A) <u>Internal Growth Strategies</u> –

Internal growth is within the organization or with the help of it's internal resources. i.e. the capital, employees, the technique used for production etc. There are no major changes in the management and operations of the organization, if it focuses on internal growth. Internal growth can take place either by a) Intensification or b) Diversification of business.

a) <u>Intensification Strategy</u> - In this strategy, a firm intends to grow by concentrating on its existing businesses. This strategy involves three alternatives.

1) **<u>Market Penetration Strategy</u> -** This strategy involves using aggressive sales promotion techniques for promoting the sale of existing products in existing markets. In order to capture higher share of the market, a firm may cut prices, improve distribution network and adopt sales promotion techniques to increase the sale to existing customers, convincing the non users to purchase the products and also attracting the users of competing brands.

2) **<u>Market Development Strategy</u> -** This strategy involves finding out new markets for the existing products. It aims at reaching new customer segments within an existing geographic market,

or it may aim at expanding into new geographic areas, including overseas markets.

3) **<u>Product Development Strategy</u> -** This strategy involves developing new products for existing markets or for new markets. In product development, the firm may improve it's product's features or performance or it may extend its product line.

b) **<u>Diversification Strategy</u> -** In this strategy, the firm enters into the new line of business. It involves expansion or growth of business by introducing new products either in the same market or in different markets. The firm may diversity for various reasons such as to spread the risks by operating in various businesses, the make optimum use of resources, to face competition effectively etc.

Diversification strategy involves the following forms :

1) **<u>Vertical Diversification</u> -** In this case, the company expands its activities or product lines vertically i.e. by forward or backword integration.

i) **<u>Forward Integration</u> -** In forward integration, the firm may start marketing its products by its elf i.e. by establishing it's own retail outlets. The purpose is to reduce the dependence on distributors and to enjoy control over marketing of it's products.

ii) **<u>Backward Integration</u>** - In backward integration, the firm may start manufacturing its own raw materials, spare parts and components. The purpose is to reduce the dependence on suppliers and to enjoy control over it's supplies.

2) **<u>Horizontal Diversification</u> -** In this case, a company expands its activities by introducing new products or product lines which are related to a certain extent to the current line of business. The products are related because they perform a closely related function, or are sold to the same customer groups, or are marketed through the same distribution channel. For example, a company manufacturing refrigerators may enter into manufacturing of air conditioners or a truck manufacturing company may set up a car making unit.

3) **<u>Concentric Diversification</u> -** In involves diversification into such areas or products, which are indirectly related to its existing line of business. In concentric diversification, the new

business is linked to the existing business through process, technology or marketing. For example, a car dealer may start a finance company to finance hire purchase of cars.

4) **Conglomerate Diversification** - It involves entry in a totally new area or business. It is an attempt to diversity outside the present market or product. In conglomerate diversification, there are no linkages between the new business and the existing business. New line of business is quite different as far as process, technology or functions are concerned. For example, a computer software company may enter into insurance business.

B) External Growth Strategies :

Growth with the help of external resources or organisations is called external growth.

The external growth strategies can be broadly divided into three groups.

1) Mergers and Acquisitions
2) Amalgamations
3) Joint Ventures

1) Mergers and Acquisitions / Takeovers :

In merger and acquisition, two companies come together but only one company retains its existence and the other loses its identity i.e. the company which acquires other company continues to operate in the business but the merging company loses its existence. In merger, the acquiring company takes over the assets & liabilities of another company. Shareholders of merging company are given the shares of the acquiring company.

Mergers represent a process of allocation and reallocation of resources of firms in response to changes in economic conditions and technological innovations. The main rationale for a merger is that the value of the merged firm is expected to be greater than the total of the independent values of merging firms due to operating economies, tax benefits, opportunities of diversification, ability to face competition and so on.

Merger may be horizontal, vertical or conglomerate. In horizontal merger, both the companies (merging and merged) are engaged in the same line of business. In vertical merger, the combining companies are engaged in the successive stages of production / marketing. In the case of conglomerate merger, the combining companies are engaged in different business activities which are unrelated.

There is minor difference between acquisition and takeover. In acquisition, both the companies are willing to merge. In a takeover, the willingness is absent in the seller's management. Takeover is with force i.e. without the consent while acquisition is with mutual consent and persuasion.

2) Amalgamation -

An amalgamation is an arrangement in which the assets and liabilities of two or more companies become vested in another company. In other words, it is a process of combining two or more companies and a new company is formed. The shareholders of the amalgamating companies become shareholders of new entity (amalgamated company)

Amalgamations are governed by the companies Act and require consent of the shareholders and creditors.

3) Joint Ventures -

Joint venture is a form of business combination. Two or more companies form a temporary partnership and arrive at an agreement on certain issues of mutual interest. New company is not created but suitable working arrangements are agreed upon. Such agreements are beneficial to combining units. It is an economic route for gaining increased competitiveness to combining units. Joint venture covers more areas of co-operation between the two companies. Joint ventures are useful for the inflow of foreign capital, machinery and technology for rapid industrial growth in developing countries. They are popular among the developing counties and are not harmful provided the joint venture agreements are made with due care and caution.

In a joint venture, the business units from two different countries come together for starting a new industrial activity. Joint venture is also possible among two or more domestic companies. However, leading foreign companies are normally preferred. It is generally for sharing of ownership and control of an economic enter pries between foreign firm and local firm.

Joint ventures are possible at private and public sector level. The purpose is to use latest technology for production purposes and to undertake large industrial projects involving huge capital with the co-operation of reputed foreign companies. They are also useful for exploiting natural deposits within the country.

Joint Venture is not an integration of two units. It is not a business combination in the ordinary sense of the term as two companies maintain their independent identity even after the joint venture agreement. It only suggests co-operation and participation for setting up a new manufacturing unit in the country.

c) Retrenchment Strategies -

Various external and internal developments create the problems to the prospects of business firms. In declining industries, companies face such risks as falling demand, emergence of more attractive substitutes, adverse government policies, and changing customer needs and preferences. In addition to external developments, there are company specific problems such as inefficient management and wrong strategies that lead to company failures. In such circumstances, the industries, markets and companies face the danger of decline in sales and profit and thereby intend to sub statically reduce the scope of its activity. For this purpose, the problem areas are identified and the causes of the problems are diagnosed. Then, steps are taken to solve the problems that result in different types of retrenchment strategies.

The retrenchment strategies can be of the following forms :

1) Turn around strategy
2) Divestment strategy
3) Liquidation strategy

1) Turnaround Strategy :

Turnaround strategy can be referred as converting a loss making unit into a profitable one. According to Dictionary of Marketing ‘Turnaround means making the company profitable again.’ Normally the turnaround strategy aims at improvement in declining sales or market share and profits. The declining sales or market share may be due to several factors both internal and external to the firm. Some of these factors may include high cost of materials, reduction in prices of the goods and services, increased competition, recession, managerial inefficiency etc.

Turnaround is possible only when the company can restructure its business operations. Certain strategies which can be used for turning around include changing the management, redefining the Co's strategic focus, divesting for closing unwanted assets, improving profitability of remaining operations, making acquisitions to rebuild core operations and so on.

2) <u>Divestment Strategy -</u>

Divestment involves the sale of a division or a plant or a unit of one firm to another. From seller's point of view, it represents contraction of port folio, and from the buyer's point of view, it represents expansion.

Reasons for divestment can be as follows :

1) <u>Raising Capital</u> Firms can raise funds to improve their liquidity.

2) Reduction of Losses - Divisions or units are divested, when they earn low returns or suffering losses.

3) Concentration on Core Business - Some firms may divest some units or divisions to concentrate on core business.

4) Improvement in Efficiency - Due to divestment, a firm can concentrate more efficiently on its existing business, which may improve the overall efficiency of the firm.

The main idea behind a proactive divestment programme is creation of new businesses. As companies get rid of businesses, they also need to formulate expansion plans focused on strengthening remaining businesses. The goal should be to create a cycle of rejuvenation, through which the corporate portfolio of business is continually reinvented.

Thus, divestment is not an end in itself. Rather, it is a means to a larger end, building a company that can grow and prosper over the long run. Wise executives divest businesses so that they can create new ones and expand existing ones. Ultimate aim should be optimum utilization of resources for creating shareholder value.

3) <u>Liquidation Strategy :</u>

Winding up or liquidation of a company is the complete closing down of the business of a company Basically it refers to a proceeding by which a company is permanently dissolved and its assets are then disposed off to pay its debts. Surplus, if any is distributed among the members according to their rights in the company.

The decision to close down or liquidate a company is taken after careful consideration, only when it is not possible to carry on the company in the present state of affairs. It should also not be possible, for a turnaround of the company in the future. Liquidation strategy should be considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employee’s loss of job opportunities and the stigma of failure.

The decision to close down the company and cut down losses should be in the interests of the members / shareholders / investors of the company. The winding up or closure of a company has to be in accordance with rules laid down in the companies Act, 1956.

D) <u>Combination Strategies :</u>

When an organization adopts a mix of stability, expansion and retrenchment either simultaneously or sequentially for the purpose of improving its performance, it is said to follow the combination strategies. Combination strategies are applied at the same time in different businesses or at different times in the same business. No organization has grown or survived by following a single strategy. The complex nature of businesses requires that different strategies be adopted to suit the situation i.e. as companies divest businesses, they also need to formulate expansion plans focused on strengthening remaining businesses, starting new ones or making acquisitions. An organization following a stability strategy for quite some time has to consider expansion and one that has been on expansion path for long has to pause to consolidate its businesses. Multi business firms have to adopt multiple strategies either simultaneously or sequentially.

Reasons for following combination strategies can be given as follows :

1) When the organization is large and faces a fast changing complex environment.

2) The products are in different stages of the life cycle.

3) A combination strategy is suitable for a multiple industry firm at the time of recession.

4) The combination strategy is best for firms, divisions which perform unevenly or do not have the same future potential.

6.5 RELATIONSHIP BETWEEN INTERNATIONAL STRATEGY AND CORPORATE STRATEGY

Corporate level strategies basically refer to taking key decisions related to allocating of resources among the different businesses of a firm, and ultimately managing a portfolio of businesses so that ultimately organizational objectives are achieved. In this process the company may adopt stability strategy, expansion strategy, retrenchment strategy or a combination of these strategies.

International strategy is a kind of expansion strategy in which firms market their products or services beyond the domestic market.

For this purpose, a firm requires to asses the international environment, evaluate its own capabilities and devise strategies to enter foreign markets.

Some firms are required to enter new markets in other countries when they face slower growth rates at domestic market. Sometimes firms can introduce new products successfully in a foreign market than in domestic market. Sometimes firms may find that producing the goods in other countries can be more beneficial than exporting to those countries due to some import restrictions by a host government Cheap supply of raw materials, labour or availability of latest technology can also be reasons for starting production facilities in other country.

It should be noted that movement towards international markets is a gradual process. Most firms begin by exporting that involves relatively low investment and risk. Then a firm may engage in a joint marketing venture with a foreign local firm who will act as its agent. Once a foreign presence is established, the firm may decide to expand its activities.

Expansion at this stage may take place with the development of specialized products new investments in local manufacturing facilities or direct investment in the foreign market.

6.6 CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES IN INDIA

Corporate governance relates to laws, procedures, practices and implicit rules that determine company's ability to take improved managerial decisions from social point of view. It is basically a system of making directors accountable to shareholders for effective management of the company along with concern for ethics and values. It is a process or a set of systems and processes to ensure that a company is managed to suit the best interests of all. The systems include structural & organisational / matters. The stockholders may be internal state holders (promoters, members, employees and executives) and external state holders (promoters, members, customers, lenders, vendors, bankers, community, government and regulators).

- **Objectives of corporate governance can be listed as follows.**

1) To enhance the long term value of the company for its shareholders and all other parties directly a indirectly associated with it.

2) To provide norms for the relationships between company management, its board, shareholders, owners, employees, suppliers, customers and the public.

3) To promote the goodwill and reputation for the company and the esteem of its management.

4) To attract, employ & retain talented and motivated employees by encouraging participative Style of Management.

5) To create and adopt code of conduct whole hearted commitment and improve the moral and ethical standards to performance of the utmost level.

6) To have a right balance knowledge and competence, to set strategies and lead the organisation.

7) To use the available resources in most economic, efficient & productive manner for the benefit of shareholders an well as for the society at large.

8) To set the high standards of business ethnics based on humanity, honesty & hard work.

9) To improve the standard of living of the society.

10) To generate accurate & reliable information.

11) To make decision making process transparent.

- **Principles of Corporate Governance.**

Commonly accepted principles of corporate governance can be explained as follows.

a. Acknowledging rights of the shareholders and ensuring equitable treatment to them.

Organizations should respect the rights shareholders and help shareholders to exercise those rights by ensuring effective communication of information and encouraging them to participate in general meetings, Organizations should also accept that they have legal and other obligations to all legitimate stakeholders.

b. Role and responsibilities of the board:

The board needs certain skills and attitudes to deal with various business issues and the ability to review and challenge management performance. It needs to be of sufficient size and have a commitment to fulfill its responsibilities and duties. The issues regarding the appropriate mix of executive and non executive directors should the tackled properly. The key roles of chairperson and CEO should not be held by the same person.

c. Integrity and Ethical Behaviour.

Ethical and responsible decision making is required for improving public relations, managing risks of business and avoiding disputes. It can be achieved by developing a code of conduct for the directors and executives. In order to ensure ethical standards by individuals, many organizations establish compliance and ethics programs.

d. Disclosure and Transparency –

Organisations should publicise the roles and responsibilities of board and management so that they become accountable to shareholder. They should also lay down procedures for verifying the integrity of the company’s financial reporting. All investors should have access to clear and factual information.

e. Accountability –

The Board of Directors should be accountable to the shareholders and management to the Board of Directors. Both the Board and the management must be accountable to the shareholders for the performance of tasks assigned to them. It is necessary to ensure that there is an effective management of resources and achievement of results with efficiency coupled with empowerment.

f. Trusteeship:

Organisation should have both social & economic purpose. The Board must ensure that the company fulfill its obligations & responsibilities to all its stake holders.

g. Empowerment –

The management should be empowered to adopt dynamic & progressive approach. Empowerment i.e. delegating decision making powers at the most appropriate levels in the organizational hierarchy generates creativity and innovation throughout the organization.

h. Ethics –

An organisation must set specific standards of ethical behaviour both within the organization & in its external relationships.

i. Oversight –

It means the existence of a system of checks & balances. It should prevent misuse of power & facilitate timely management response to change & risks.

j. Fairness to all Stakeholders –

It involves a fair and equitable treatment of all participants in the corporate governance structure. There should be no discrimination between any groups of stakeholders.

- **Corporate Governance Practices in India:**

In India, there are six mechanisms to ensure corporate governance.

a. The Company's Act –

Companies in India are regulated by the Indian Companies Act., 1956, as amended from time to time. To ensure Corporate governance, the Act confers legal rights to shareholders as under.

1)To vote on every resolution placed in an Annual General Meeting.

2)To elect directors who are responsible for specifying objectives and laying down policies.

3)To determine remuneration of directors and the CEO.

4) Removal of directors and.

5) Take active part in the annual general meetings.

b. Securities Law :

The primary securities law in our country is the SEBI Act. Since its setting up in 1992, the board has taken a number of initiatives towards investor protection. One such initiative is to mandate information disclosure both in the prospectus and in the annual accounts. While the Companies Act itself specifies certain standards of information disclosure, the SEBI Act has added substantially to these requirements in an attempt to make these documents more meaningful.

c. Discipline of the Capital Market.

Capital market itself has considerable impact on corporate governance. The minority shareholders can play an effective role in this regard. They can refuse to subscribe to the capital of a company in the primary market and in the secondary market. They can sell their shares, thus depressing the share prices. A depressed share price makes the company an attractive takeover target.

d. Nominees on Company Boards.

Development banks hold large amount of shares in companies which have been given long term loans. Being equity holders, these investors have their nominees on the Board of Companies. These nominees can effectively control resolutions, which may be detrimental to their interests.

e. Statutory Audit –

Statutory Audit is yet another mechanism directed to ensure good, corporate governance. Auditing enhance the credibility of financial reports prepared by any enterprise. The auditing process ensures that financial statements are accurate and complete, thereby enhancing their reliability and usefulness for making investment decisions.

The above mentioned mechanisms are regulatory in approach. They are governed by law and violation of any provision can invite penal action. But legal provisions alone cannot ensure good corporate governance. What is actually need is self regulation on the part of directors.

6.7 CORPORATE GOVERANCE PRACTICES AROUND THE WORLD.

`Corporate governance refers to the relationship among various participants in determining the directions and performance of corporations. The primary participants are shareholders, the management, and Board of Directors. The proper implementation of corporate governance regulations by the companies is beneficial both for companies and countries. High quality status of corporate governance means low capital cost, increase in financial capabilities, liquidity, ability of overcoming crises more easily and prevention of execution of soundly managed companies, from capital markets.

For years, the OECD (Organisation for Economic Co-operation and Development) has been working to promote use of corporate governance principles. They were first issued in 1999 and revised in 2004 to support good Corporate Governance policy & practice, both within OECD countries & beyond.

Global Strategies of corporate governance cover the following aspects.

1) **Corporate Objective** - The primary objective of the corporation should be to enhance the returns of its shareholders. Corporate objective should be clearly stated and disclosed.

2) **Communication and Reporting** - Corporation should disclose accurate, adequate and timely information especially on the issues of acquisition, ownership obligation and sale of shares.

3) **Voting Rights** - Corporations should value shareholders' rights to vote.

4) **Corporate Boards** - The Board of Directors are accountable to the shareholders. Each member of the Board should contest election on a regular basis. The Board should include a sufficient number of independent Non Executive Directors with appropriate competencies. Responsibilities should include monitoring and contributing effectively to the strategy and performance of management, and influencing the conduct of the Board as a whole.

5) **Corporate Remuneration Policies** - Remuneration of corporate directors or supervisory board members and key executives should be in line with the interest of shareholders.

6) **Strategic Focus** - Major strategic modifications to the core business of a corporation should not be made without prior shareholders' approval of the proposed modification. Shareholders should be given sufficient information about any such proposal sufficiently early to allow them to make an important judgment and exercise their voting rights.

7) **Operating Performance** - Corporate Governance practices should make clear the intention of the company to enhance company operating performance in comparison with its competitors.

8) **Shareholders' Returns** - Corporate Governance practices should also focus Board's attention on optimizing profits to pay good returns to their shareholders.

9) **Corporate Citizenship** - The Company should adhere to all applicable laws of the jurisdiction in which they operate.

10) **Corporate Governance Implementation** - Codes of best practices should be applied pragmatically. Where they do not yet exist, investors and others should try to develop them.

Many MNCs and TNCs operate in several countries of the world. Their activities must focus on ethically and responsibly inspired vision and core values. They must adopt ethical standards, norms and practices. They must be the leaders in the industry not only in the technology, organizational practices, product features, R & D, marketing organization and performance, but they must also lead in ethics and social responsibility in their home countrles & all other countries.

6.8 SUMMARY

Strategic alliance refers to collaboration and co-operation between corporations to achieve strategic goals and objectives. It may provide technical, operational and / or financial benefits to the corporations of strategic alliance. They may undertake joint R and D, product development, knowledge sharing marketing and distribution sharing, and joint quality control and research.

There are different types of strategic alliances based on various criteria. Such as based on the parties to alliance, their financial involvement, and participation of the Government.

Strategic alliances are common in business world. They are significant to achieve synergy. Strategic alliance leads to synergy due to sharing of resources and combined efforts of various parties. However, due to involvement of various parties, certain problems or difficulties can occur such as conflicts between parties, government interferon, delay in decision making, difference in values & culture, loss, unfair terms and conditions and so on.

Corporate Strategy refers to identifying the business the company shall be engaged in. They determine the direction that firm takes in order to achieve its objectives.

Corporate Strategy covers four basic alternatives which can be considered for optimum utilization of resources and maximizing profitability of the firm and they are stability, growth, retrenchment and combination.

International strategy is a kind of expansion strategy in which firms market their products or services beyond the domestic market. For this purpose, a firm requires to assess the international environment, evaluate its own capabilities and devise strategies to enter foreign markets.

Corporate governance relates to laws, procedures, practices and implicit rules that determine company’s ability to take improved managerial decisions from social point of view. It is basically a system of making company directors follow ethics and values for safeguarding the interests of all.

In India, there are six mechanisms to ensure corporate governance. Such as the company's Act, Securities Law, Disciplines of the capital market, Nominees on Company boards, and statutory audit. For years, the OECD is working to promote use of corporate Governances Principles at the global level. They were first issued in 1999 and revised in 2004 to support good Corporate Governance Policy & Practice, both within OECD countries & beyond.

6.9 QUESTIONS

1. What are Strategic Alliance? Describe its types.
2. Explain the term Corporate Strategies Explain Internal and External Corporate Strategies.
3. Explain the relationship between International Strategy and Corporate Strategy.
4. Write a note on Corporate Government Principles & parities in India.
5. Write a note on Corporate Governance Practices around the world.

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7

EMERGING TRENDS IN GLOBAL BUSINESS ENVIRONMENT

Unit Structure.

7.0 OBJECTIVES

After studying this unit the student will be able to -

- Understand Strategies for Growing Green Economies
- Know Meaning of Corporate Social Responsibility Strategies for Governing Public Private Participation of Business Sector in India.
- Understand Strategies for governing PPP of Business Sector in India.
- Know Strategies for Environmental Accounting & Auditing.

7.1 INTRODUCTION

Globalization is the process of linking a nation's economy with the global economy. The policy initiated by the Government of India in the form of structural reforms through liberalization, privatization and globalization will enable the country to become an active participant in the global market. The business community particularly the large business houses concerned with exporting, how to understand the message of globalization in the right perspective.

Today, everything has changed. Globalization, the internationalization of markets and corporations, has changed the way modern corporations do business. To reach the economies of scale necessary to achieve the low costs, and thus the low prices, needed to be competitive, companies are now thinking of a global (worldwide) market instead of a national market.

7.2 STRATEGIES FOR GROWING GREEN ECONOMIES

The global recession has brought new attention to chronic structural flaws in Current economic models. As economies struggle to recover, many countries are considering the broad concept of a `Green Economy', one that simultaneously promotes sustainability and economic growth.

A green economy is a broader and all inclusive vision for growth and development. It not only emphasizes on growth but also improvement in people's lives that can lead to sustainable development. It can achieve triple objectives of economic growth, environmental protection and social wellbeing.

The prevailing economic growth model is focused on increasing GDP above all other goals. While this system has improved incomes and reduced poverty, at the same time it is the cause of serious social, environmental and economic costs. As many as two and a half billion people are below the poverty line. The natural wealth of the planet is rapidly depleting. In a recent global assessment, approximately 60% of the world's ecosystem services are found to be degraded or used unsustainably. They gap between the rich and poor is fast widening.

The persistence of poverty and degradation of the environment is due to several weakness of the prevailing economic model and there is no attempt to correct them e.g. there are no sufficient mechanisms to ensure that polluters pay the full cost of their pollution. Markets do not systematically account for the inherent value of services provided by nature like water filtration or coastal protection. A `market-economy' alone cannot provide public goods like efficient electricity grids, sanitation or public transportation. And economic policy is often framed by those who have power, with strong vested interests, and not by those who are aware of the problems of weaker sections of the society.

A Green Economy attempts to remedy these problems through a variety of institutional reforms and regulatory, tax and expenditure based economic policies and tools. It aims at the economic system that will benefit more people over the long run. For achieving this, it will require a fundamental shift in thinking about growth and development, production of goods and services and consumer habits.

The following steps can be taken at the policy making levels to ensure sustainable growth and development.

1) Increasing public awareness regarding the need for change. Greater awareness on the need for this transition can motivate voters and consumers not just because of the costs but also the economic benefits generated by a Green Economy, such as new jobs, and new markets.

2) Promotion of new indicators that complement GDP Planning agencies and Finance Ministries should adopt a more diverse and representative set of economic indicators that focus less exclusively on growth and more on the progress of social indicators of development.

3) Opening up government decision - making processes to the public and civil society. This would help to ensure that policies are accountable to the public and not to vested and well connected interests.

4) Identifying and taking advantage of political leadership when available as this will be crucial in order to limit the undue influence of `dirty' economic hold outs.

Timing is everything when it comes to big policy reforms. Green economy policies will have to be ready to take advantage of the right opportunities - Ultimately, the widespread transition to a Green Economy will depend upon whether or not the long term public interest in reflected in today's economic policies.

7.3 MEANING OF CORPORATE SOCIAL RESPONSIBILITY STRATEGIES FOR GOVERNING PUBLIC PRIVATE PARTICIPATION OF BUSINESS SECTOR IN INDIA

7.3.1 Meaning –

The term Public Private Partnership (PPP) can be used to describe a wide variety of arrangements involving the public and private sectors working together in some way. These questions arise as regards PPP-

1) Why the government joins the hands with the private sector?

2) What are the forms of PPP?

3) How the PPPs can be formulated?

PPP are contractual arrangements of varied nature in which the two parties share rights and responsibilities during the duration of the contract. Different forms of PPPs may exist involving various combinations of public and private sector finance and exposure to project risk. The role of the private party varies according to the type of sector and the nature of the market.

PPP are often confused with Privatisation. There is a clear difference between these two forms of private sector engagement. Privatisation involves the permanent transfer of a previously publicly owned asset to the private sector, where as a PPP necessarily involves a continuing role for the public sector as a `Partner' in an ongoing relationship with the private sector. Under a PPP, accountability for provision of the service remains the public sector, and there is a direct contractual relationship between the Government and private sector provider. With Privatisation, immediate accountability for providing the service may often be transferred to the private provider (although ultimately the citizen may hold government accountable.) If the telephone in a privatized telecommunications utility does not work, the citizen will normally complain to the private provider but if a PPP hospital is closed, the citizen will still hold the government immediately accountable.

There are PPP in which a private party provides public infrastructure under a long term contract with a public sector body. Under such an arrangement, the private sector party usually agrees to under take the following.

1) Design and build, expand or up grade the public sector infrastructure.

2) Assume substantial financial, technical and operational risks.

3) Receive a financial return through payments over the life of the contract from users, from the public sector, a from a combination of the two.

4) Usually return the infrastructure to public sector ownership at the end of the contract.

Terms such as BOT (build, operate and transfer) and DBFO (design, build, finance & operate) are often used to describe such schemes. Such terms also apply to long term concessions where the private sector is responsible for the operation, maintenance and expansion of existing assets. When the underlying asset is not returned to the public sector, it is sometimes referred to as a BOO (build, own and operate) contract, and the procedures to select, prepare and bid these types of projects are usually no different. Each sector may have its own particular issues, but these approaches can apply across a wide range of infrastructure provision.

Whether in power generation, the building and maintenance of roads, or the provision of schools or hospitals, the broad nature of the PPP is determined by what rights, obligations and risks are assumed by the public or private parties within the partnership.

7.3.2 FORMS OF PPP

Various forms of PPP can be broadly classified into two further categories -

1) User - Fee and

2) Availability - based PPP.

1) **User - Fee PPP -** In a user fee PPP, a public authority grants a private party the right to design, build, maintain, operate and finance an infrastructure asset owned by the public sector.

   The user fee PPP contract is for a fixed period, say 25-30 years, after which responsibility for operation goes back to the public authority. The private party recovers its investment, operating and financing costs and its profit by charging members of the public a user fee (e.g. a road toll). Thus a key feature is that the private party is usually allocated the risk of demand for use of the asset, in addition to the risk of design, finance, construction and operation.

2) **Availability Based PPP -** The other main form of PPP has some similarities with user fee PPPs, in that it also involves a private party designing, financing, building or rebuilding, and subsequently operating and maintaining the necessary infrastructure. However, in this case, the public authority - not the end users makes payments to the private party. These payments are usually made as and when and to the extent that a service is made available. Hence the demand or usage risk usually remains with the public authority.

Whether to pursue a user fee or an availability - based PPP is both a policy decision and a reflection of who is best placed to pay for the service. The affordability of availability bared PPPs is likely to be an issue, because such projects require public resources and don't themselves raise revenue through user payment mechanisms.

Availability based PPP also require that the long term payment obligations of the government are acceptable to insures especially since such payments may rely on multi annual budget approvals. However, user fee PPPs also presents their own challenges with regard to demand risk and user affordability.

Faced with these challenges, the solution in a particular situation may involve blending user fees and public service charges and, in some cases, tailoring overseas development assistance into longer term, performance based contracting support.

7.4 STRATEGIES FOR GOVERNING PUBLIC PRIVATE PARTICIPATION OF BUSINESS SECTOR IN INDIA.

7.4.1 MEANING

Over the years, the nature of the involvement of business houses with social causes has undergone a change. Doing business is no longer only making profits; organizations also have to behave in a way that has gradually started to be called `Socially Responsible'. This attempt for new and expanding responsibilities often called Corporate Social Responsibility - implies taking into account issues beyond the conventional business scope. Thus businesses all over the world are realizing that for sustainable development, they need to consider benefit to society also, rather than only individual profits.

The World Business Council for Sustainable Development defines corporate social responsibility as “the commitment of the company to contribute to the sustained economic development by working with employees, their families, the local community, and the entire society in order to improve quality of life.

Thus, the meaning of Corporate Social Responsibility is twofold - on one hand, it exhibits the ethical behaviuor that an organization exhibits towards its internal and external stakeholders (customers as well as employees) On the other hand, it denotes the responsibility of an organization towards the environment and society in which it operates.

7.4.2 CHARACTERSTICS OF CORPOATE SOCIAL RESPONSIBILITY:

The concept of Corporate Social Responsibility can be explained with the help of the following characteristics -

1) It is an attempt made by companies to be voluntarily responsible to ethical and social considerations.
2) It is not legal binding for the company, unlike corporate accountability.
3) It is a set of obligations to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.
4) It is the overall relationship of the corporate with all of its stakeholders. These include customers, employees, communities, owners / investors, government, suppliers and competitors.
5) The socially responsible firms should strive to make a profit, obey the law, be ethical and be a good corporate citizen.
6) The concept of Corporate Social Responsibility differs from society to society and country to country according to the perception and sensitivity of the analyst.

7.4.3 Scope of Corporate Social Responsibility

The responsibilities for Corporate Social Responsibility are basically categorized into two areas fundamental and voluntary. The fundamental responsibilities to society cover compliance with all the rules and regulations of the land such as the rules regarding quality of the products, paying taxes, rules regarding labour and fair work environment. In voluntary responsibilities, a company can take both internal and external roles. In internal role, it can work towards betterment of its staff, giving them more rights and better facilities, making the superior quality product and making it available at reasonable price giving benefit to it's state holders, being ethical in all its dealings etc. In external role, it can contribute to any social cause, like in the field of education, health, sanitation etc.

Thus, to sum up, Corporate Social Responsibility can be defined as, the `ethical behaviour of a company towards society'. It means engaging directly with local communities, identifying their basic needs and integrating their needs with business goals and strategic intent. The Government perceives Corporate Social Responsibility as the business contribution to the nation's sustainable development goals.

7.5 STRATEGIES OF LINKING CSR WITH PROFIT AND SUSTAINABILITY FOR OBTAINING BUSINESS BENEFITS.

Business is a socio-economic activity. A firm cannot survive successfully in business unless it meets its social obligations along with achieving its economic objectives. So the management is required to reconcile economic and social objectives, It is possible to reconcile socio-economic objectives through proper planning rational approach and continuous balancing of multiple objectives.

Giving more importance to economic objectives, at the cost of social objectives may prove to be dangerous in the long run, as business always needs support and co operation from the society at large. Conflict between economic & social objectives is quite possible if rational approach is not adopted.

Balancing of objectives is not an easy task. Here, mechanical solutions are not available. It requires minute study of business situation, and ability to understand economic & social changes taking place in the country.

Suggestions for balancing economic and social objectives can be given an under.

1) **Profit and Consumer Price -** A firm should not aim only at making profits. Profits should not be earned by charging unreasonable prices to the consumers. This would result in exploitation of the consumers. Therefore, a firm should charge reasonable prices by striking a balance between profits and consumer satisfaction.

2) **Profit and Research and Development -** A part of the profit needs to be invested in R & D. This would help the firm to improve the quality of the product Improvement in quality would not only lead to consumer satisfaction, but also higher sales to the firm.

3) **Profit and After Sales Service -** A business firm needs to focus on after sales service, especially in the case of consumer durables. A part of the profit must be used for giving efficient & quick and value added after sales service to the consumers.

4) **Profit and Employees' Welfare -** Firms can make profits due to improvement in efficiency and productivity of its work force. Therefore, a firm needs to spend a part of its profits for the welfare of its employees by providing better facilities such as improved working conditions, additional welfare facilities, increase in salaries etc.

5) **Profit and Taxes -** A business firm should provide a true picture of its profits. It should pay properly its taxes and duties to the government authorities. As for as possible, business firms should not in bulge in manipulating the profits so as to avoid payment of taxes and duties.

6) **Profit and Shareholders' Interest -** Business firms should provide a fair return to the shareholders in the form of dividends, bonus shares etc. As far as possible, the top management should avoid manipulating the profits for their own interest. The interest of the shareholders must be considered in the distribution of profits.

7) **Profit and Social Welfare -** A part of the profit must be utilized for social welfare activities like donations to schools, colleges, trusts etc. Contributions can be made to the government at the time of floods, famines and such other natural calamities.

8) **Business Expansion and Social Interest -** A firm may expand its business activities. It should not be undertaken only

to make profits but also in the interest of the society such as for employment generation, better customer service etc. Also health issues of the society must be considered in setting up of industries.

9) **Business Expansion and Competition -** For increasing sales turnover, the firm may adopt aggressive sales promotion techniques such as advertising, giving discounts, offers etc. A firm should not adopt unethical practices to spoil the image of competitors. In other words, a firm should adopt healthy competitive practices.

10) **Business Expansion and Suppliers -** A firm needs support of suppliers for its business expansion plans. It should not try to exploit the suppliers. by delaying payments, demanding unreasonable higher discounts etc.

11) **Profit and protection of environment -** A part of the profits should be used to protect the environment by using anti pollution measures, planting of trees, investing in R and D. to produce eco friendly products & packages and so on.

12) **Use of modern technology & employment generation -** Firms should use modern technology for quality production at lower cost. Technology should not be used for reducing employment opportunities. On the other hand, it should lead to creation of more jobs. This brings fair balance between economic & social objectives.

Thus it can be concluded that economic & social objective should be rather complementary & supportive to each other because unless the firm earns profit, it cannot serve the society and unless it satisfies different groups of the society, it cannot earn profits.

7.6 STRATEGIES FOR ENVIRONMENTAL ACCOUNTING AND AUDITING

7.6.1 Environmental Accounting.

Environmental Accounting refers to a system for recording information on the status, use and value of natural resources and environmental assets including fisheries and forest - accounts, as well as expenditures incurred on environmental/protection and resource management.

The latest categorization of environmental accounts by the international community includes four types of accounts i.e. natural resource asset accounts, pollution and material physical flow accounts, monetary and hybrid accounts and environmentally adjusted macro economic aggregates.

1. **Natural resource asset accounts** primarily focus on stocks of natural resources. Environment is a dynamic life support system consisting of air, water, land, plants, animals, micro organisms etc. Thus, there is a complex system of inter linkage among many living and non-living components, which may be termed more technically as atmosphere, hydrosphere, lithosphere and altogether biosphere.

Two types of changes in stocks take place:

a. Changes due to economic activity (e.g. mining, fishing etc.) and

b. Changes due to natural processes (e.g. birth s and deaths of trees in a forest account.

These accounts provide indicators of ecological sustainability and can be used to show the effects of policy on resource stocks. They can help managers monitor resources more effectively. They help us in knowing monetary value of the national wealth of natural resources, the diversity of resources, its distribution and its price fluctuations.

2. **Pollution and physical material flow accounts** provide information at the industry level about the quantity of resources (energy, water and materials) that are used in economic activities and quantity of residuals solid waste, air emissions and wastewater generated by these activities. These accounts can take several forms, but they are generally organized to show the origin (Supply) and destination (use) of materials and pollution. More detailed accounts also show how inputs are transformed into other products, pollution and waste, and they provide information on the net material accumulation to either the economy or environment.

3. **Monetary and hybrid accounts** focus on expenditures and taxes related to protecting and managing the environment as well as the economic contribution of environmental services industries. Examples of monetary and hybrid accounts include fees collected by government for resource use such as levies

on materials, forestry or fisheries and funds spent on pollution control measures, water treatment and solid waste management.

4. **Environmentally adjusted macro economic** aggregates are used to assess overall environmental health and economic progress.

7.6.2 Environmental Auditing

Environmental audit involves two words `environment' and `audit'. The environment consists of variety of components of our surroundings, processes and their interactions, interdependence etc. where as an audit refers to the verification of different activities against certain principles or rules or standards.

Environmental Audit is an objective evaluation of overall environmental performance of an activity or organisation. The most important aspect of the environmental audit is to understand the environmental performance indicator for any specific activity. This may vary according to time, place and nature of activity to be audited. An environmental auditor has to have certain environmental key words and process in mind while evaluating the performance. Environmental audit should be done objectively.

Human population is bestowed with plenty of resources by the nature to sustain the life of self and surrounding fellow creatures. The natural resources have certain limitations and if not managed properly will get lost early, jeopardizing the existence of non human. The resources and factors that support life and non sub suitable materials need to be conserved, prevented from degradation, pollution and utilized optimally for development activities.

An environmental audit tries to assess and establish the degree of compatibility to the environment and help in identifying the areas requiring improvements.

Environmental audit can be utilized by organizations, industries, municipalities, governments and on a less formal level by individuals in households and schools for assessing and improving environmental care attitude in their day to day activities.

In specific terms, environmental auditing can be employed to

1) Assess compliance level with relevant legislative & regulatory requirements pertaining to local & global environment.
2) Facilitate in designing of case specific Environmental Management Systems.
3) Facilitate management control of environmental practices.
4) Increase awareness and commitment in the employees to strengthen environmental measures.
5) Assessment of internal policy & procedural conformance.
6) Establish current practice status.
7) Promote good environmental management practices.
8) Explore & identify improvement opportunities across the business line.
9) Assess and quantity the achievements.
10) Enhance creditability with the public as a responsible corporate citizen.

7.7 SUMMARY

A Green economy is a broader and all inclusive vision for growth and development. It tens to achieve three fold objectives of economic growth, environmental protection and social well being. In order to implement this new economic model, it required to create public awareness regarding to the need for change has to be given to social indicators of development Importance along with economic indicators.

CSR can be defined as the ethical behavior of a company towards society. It means voluntary engagement of the company for contributing to social and community welfare activities. The government perceives CSR as the business contribution to the nation’s sustainable development goals.

In PPP, two sectors of the economy the i.e. Public and the Private Sector work together for completion of certain project involving huge investment. Different forms of PPPs may exist involving various combinations of public and private sector finance and exposures to project risk. The role of the private party varies based on the type of sector and the nature of the market.

Various farms of PPP can be broadly classified into two categories – User fee and availability based PPP. In both the types, a private party is allowed to design, building, maintain, operate and finance an infrastructure assets owned by the public sector. In user Fee, the private party recovers its investment, operating and financing costs and its profits by charging members of the public a user fee however in Availability based PPP, the public authority, not the end users makes payments to the private party.

Whether to pursue a user fee or availability based PPP is both a policy decision and a reflection of who is best placed to pay for the service.

Environment Accounting refers to a system for recording information on the status, use and value of natural resources and environmental assets including fishers and forest accounts, as well expenditure incurred on environmental protection and resource management.

Environment Audit is an objective evaluation of overall environmental performance of an activity or organization. The most in aspect of the environmental audit is to understand the environmental performance indicator for any specific activity. This may very accounting to time, place and nature of activity to be audited.

7.8 QUESTIONS

1. What do you mean by the term 'Green Economy'? What Strategies can be used for Covering Green Economy?
2. Write a note on PPP of business sector in India.
3. What is the meaning of CSR? What are the Strategies of linking CSR with Profit?
4. Write a note on 'Environmental Accounting and Auditing?

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Question Paper Pattern for STRATEGIC MANAGEMENT
M.Com Parts I (Revised) for IDOL-Annual Pattern

Duration: 3 Hours **Maximum Marks: 100**

Note: 1) All Questions are Compulsory.
2) Figures to the right indicate full marks.

Q. No. 1	Full Length Question	20
Q. No. 2 a)	Short Answer Type Question	10
b)	Short Answer Type Question	10
	OR	
Q. No. 2 a)	Short Answer Type Question	10
b)	Short Answer Type Question	10
Q. No.3 a)	Short Answer Type Question	10
b)	Short Answer Type Question	10
	OR	
Q. No. 3 a)	Short Answer Type Question	10
b)	Short Answer Type Question	10
Q. No. 4 a)	Short Answer Type Question	10
b)	Short Answer Type Question	10
	OR	
Q. No. 4 a)	Short Answer Type Question	10
b)	Short Answer Type Question	10
Q. No. 5 a)	Short Answer Type Question	10
b)	Short Answer Type Question	10

Note: Question No. 1 will be from Module No. 1 and Question No. 2 to 5 will be from remaining modules.

M.Com. (Part- I)
Strategic Management (Rev)
{April – 2016}

QP Code : 24406

(Revised Course)

(3 Hours) **[Total Marks : 100**

N.B.: (1) **All** questions are **compulsory.**
(2) **Figures** to the right indicate **full** marks.

1. Explain the Strategic Management Process and its benefits. **20**

2. (a) Bring out the importance of strategic implementation and its effects on business. **10**
(b) What are the internal components of business environment? **10**

OR

(a) What is Corporate Renewal? Explain its scope in business. **10**
(b) Explain the strategies in management of culture in business. **10**

3. (a) Describe the FDI strategies in India. **10**
(b) What is outsourcing? Is outsourcing a good business exercise for developed countries. **10**

OR

(a) Explain the Reengineering Business Process in detail. **10**
(b) "Telecommunication revolution is the boon to Indian economy" Explain. **10**

4. (a) Explain the Disaster Management issues and problems in brief. **10**
(b) What are the economic losses occured due to natural disasters? **10**

OR

(a) Explain the various forms of Strategic Alliances. **10**
(b) Write a note on Turnaround Strategy. **10**

5. (a) Explain the Corporate Governance practices in India. **10**
(b) What are the green economy strategies? **10**

OR

5. (a) How are the strategies of Corporate Social Responsibility (CSR) linked with profit. **10**
(b) Write a brief note on "Environmental Accounting and Auditing." **10**

[TURN OVER

(सुधारित अभ्यासक्रम)

(मराठीत रूपांतर)

(3 तास) [एकूण गुण : १००

सूचना : (१) सर्व प्रश्न आवश्यक आहे.
(२) उजवीकडील अंक पूर्ण गुण दर्शवितात.
(३) इंग्रजी प्रश्न मूळ मानावेत.

१. व्यूहरचनात्मक व्यवस्थापन प्रक्रिया आणि त्याचे फायदे स्पष्ट करा. २०

२. (अ) व्यूहरचनात्मक अंमलबजावणी महत्त्व आणि त्याचा व्यवसायावरील प्रभाव विशद करा. १०
(ब) व्यवसाय वातावरणाचे आंतरीक घटक कोणते आहेत? १०

किंवा

(अ) संघटना पुर्ननिर्माण काय आहे? व्यवसायातील त्याची व्याप्ती स्पष्ट करा. १०
(ब) व्यवसायातील व्यूहरचना आणि सांस्कृतीचे व्यवस्थापन स्पष्ट करा. १०

३. (अ) भारताच्या विदेशी सरळ गुंतवणूक व्यूहरचनांचे वर्णन करा. १०
(ब) बाह्यस्त्रोत काय आहे? विकसीत देशांसाठी बाह्यस्त्रोत हे एक चांगले व्यावसायीक उदाहरण आहे का? १०

किंवा

(अ) पुर्नअभियांत्रीकी व्यवसाय प्रक्रिया सविस्तर स्पष्ट करा. १०
(ब) ''दूरध्वनी संदेशवहन क्रांती ही भारतीय आर्थिकतेसाठी फायद्याची आहे.'' स्पष्ट करा. १०

४. (अ) आपत्ती व्यवस्थापनाचे समस्या संक्षिप्तपणे स्पष्ट करा. १०
(ब) नैसर्गिक आपत्तीमुळे होणारे आर्थिक नुकसान कोणते आहे? १०

किंवा

(अ) व्यूहरचनात्मक युतींचे विविध प्रकार स्पष्ट करा. १०
(ब) कार्यवाही व्यूहरचनेवर टिप लिहा. १०

५. (अ) भारताचे संघटना नियमन सराव स्पष्ट करा. १०
(ब) हरित आर्थिक व्यूहरचना काय आहे? १०

किंवा

(अ) संघटना सामाजिक जबाबदारीच्या व्यूहरचना नफ्याशी कश्या जोडल्या जातात? स्पष्ट करा. १०
(ब) ''वातावरणीय लेखापरिक्षण आणि अंकेक्षण'' यावर टिप लिहा. १०
