MODULE -III, PAPER-5

STRATEGIC MANAGEMENT, ALLIANCES & INTERNATIONALTRADE

WHAT DO YOU UNDERSTAND BY STRATEGY?

The word strategy has been derived from Greek word 'strategos', which means generalship. Strategy is the determination of the basic long-term goals and objective of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals.

Strategy is the creation of a unique and valuable position involving a different set of activities. Strategy requires you to make trade-offs in comparing to choose what not to do.

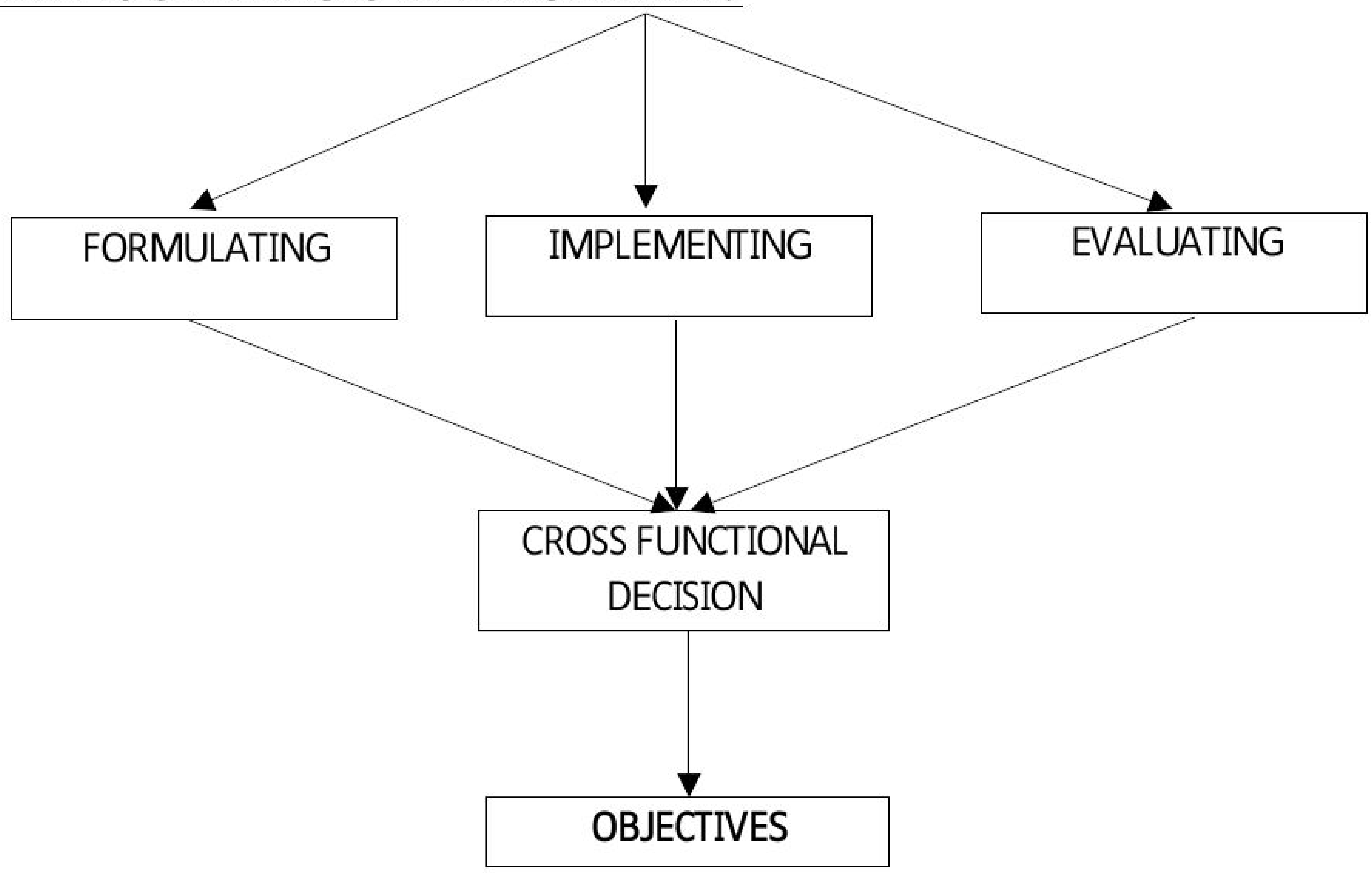
Strategy rests on unique activities, the essence of strategy is choosing to perform activities differently than rivals do.

3. Nature and Scope of Strategic Management

WHAT ARE THE FEATURES OF STRATEGY

1. Strategy is a relative combination of actions aimed to meet a particular condition to solve certain problems, or to achieve a desirable end.
2. Strategy is a major course of action through which an organization tries to relate itself with environment to develop certain advantages which help in achieving its objectives.
3. Strategy may involve contradictory action.
4. Strategy is forward looking and it has orientation towards future.

WHAT IS STARTEGIC MANAGEMENT?



Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives.

Strategic management is the process of specifying the organisation's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organisation's objectives.

4. Nature and Scope of Strategic Management

Strategic management combines the activities of the various functional areas of a business to achieve organizational objectives. It provides overall direction to the enterprise.

Strategic management does not replace traditional management activities such as budgeting, planning, monitoring, marketing, reporting and controlling. Rather, it integrates them into a broader context, taking into account the external environment, internal organizational capabilities and organisation's overall purpose and direction.

Strategic management is an ongoing process that assesses the business environment and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly.

EXPLAIN THE VARIOUS PHASES OF STRATEGIC MANAGEMENT.

PHASE 1:

In this phase, financial planning, management focuses on the preparation of budgets with an emphasis on functional operations. Forecast based planning follows the managers to project budget requirements beyond the one-year cycle. This phase represents an effort to extend managers' attention beyond the immediate future as scenarios are developed which describe their expectations about future time periods.

PHASE 2:

In this phase, planning is very "now" oriented. Current operations and characteristics are stressed in analysis of the firm and there is little attention to or patience for considering operational options or development of strategic changes.

PHASE 3:

In this phase, external oriented planning, requires a significant change in management viewpoint. Planners are required to adopt an external orientation and tools and procedures for environmental and internal assessment.

PHASE 4:

In this phase strategic management evolves as top management senses the need to more heavily invest in the planning process because of its lack of understanding of or involvement in the details of earlier plan development.

DESCRIBE STRATEGIC THINKING:

Strategic thinking is defined as a mental or thinking process applied by an individual in the context of achieving success in a game or other endeavor. Strategic thinking is promoting unorthodox perspectives, challenging the obvious and fostering divergent thinking and creative solutions. Strategic thinking is facilitating and exploiting group dynamics. Strategic thinking is using the right group problem solving methodology at the right time with the right people to make projects profitable.

When applied in an organizational strategic management process, strategic thinking involves the generation and application of unique business insights and opportunities intended to create competitive advantage for a firm or organization. It can be done individually, as well as collaboratively among key people who can positively alter an organisation's future.

Strategic thinking includes finding and developing a strategic foresight capacity for an organization, by exploring all possible organizational futures, and challenging conventional thinking to foster decision making today.

DIFFERENTIATE BETWEEN STRATEGIC THINKING AND STRATEGIC PLANNING:

	STRATEGIC THINKING	STRATEGIC PLANNING
Vision of the Future	Only the shape of the future can be predicted.	A future that is predictable and specifiable in detail.
Strategic Formulation and Implementation	Formulation and implementation are interactive rather than sequential and discrete.	The roles of formulation and implementation can be neatly divided.
Managerial Role in Strategy Making	Lower-level managers have a voice in strategy-making, as well as greater latitude to respond opportunistically to developing conditions.	Senior executives obtain the needed information from lower-level managers, and then use it to create a plan which is, in turn, disseminated to managers for implementation.
Control	Relies on self-reference – a sense of strategic intent and purpose embedded in the minds of managers throughout the organisation that guides their choices on a daily basis in a process that is often difficult to measure and monitor from above.	Asserts control through measurement systems, assuming that organisations can measure and monitor important variables both accurately and quickly.
Managerial Role in Implementation	All managers understand the larger system, the connection between their roles and the functioning of that system, as well as the interdependence between the various roles that comprise the system.	Lower-level managers need only know his or her own role well and can be expected to defend only his or her own turf.
Strategy Making	Sees strategy and change as inescapably linked and assumes that finding new strategic options and implementing them successfully is	The challenge of setting strategic direction is primarily analytic.

	harder and more important than evaluating them.	
Process and Outcome	Sees the planning process itself as a critical value-adding element.	Focus is on the creation of the plan as the ultimate objective.

WHAT ARE THE BENEFITS OF STRATEGIC MANAGEMENT?

1. Clarity in objectives and direction
2. Improvement in financial benefits of organization
3. Offsetting environmental uncertainty
4. Organizational effectiveness
5. Motivation and satisfaction
6. Improved quality of decisions
7. discipline

WHAT ARE THE LIMITATIONS OF STRATEGIC MANAGEMENT?

1. Uncertain predictions
2. Non-flexibility
3. Contribution of strategic management
4. implementation

DISCUSS VARIOUS PROCESSES OF STRATEGIC MANAGEMENT.

1. Setting organization Mission and Objectives
2. Environmental Analysis
3. Organizational Assessment
4. Identification of Strategic Alternative
5. Choice of Appropriate strategy
6. Implementation of Strategy
7. Performance Evaluation and Control

EXPLAIN THE LEVELS AT WHICH STRATEGY OPERATES.

1. Corporate-Level Strategy
2. Business-Level Strategy
3. Functional-Level Strategy

WHAT DO YOU MEAN BY GLOBAL BUSINESS?

EXPLAIN BRIEFLY DIFFERENT STRATEGIC APPROACHES FOR GLOBALISATION BY A COMPANY.

STATE THE REASONS THAT PROMPT THE COMPANIES FOR DOING BUSINESS GLOBALLY

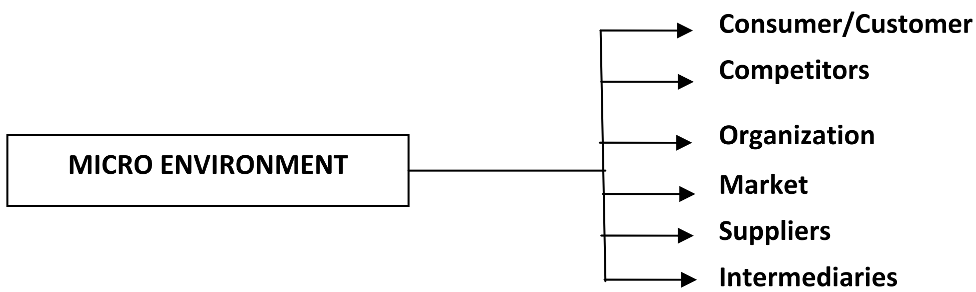
WHAT ARE THE ISSUES IN GLOBAL BUSINESS? OR WHAT ARE THE ASPECTS ON WHICH GLOBAL BUSINESS DEPENDS?

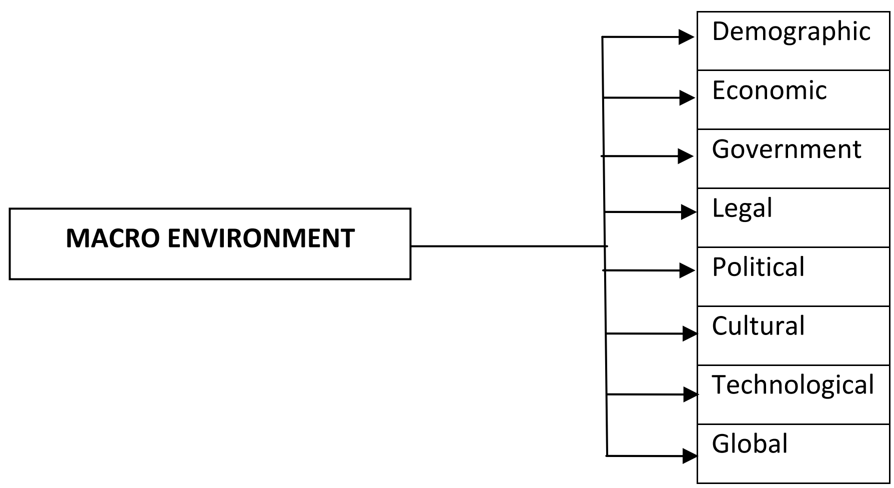
CHAPTER 2

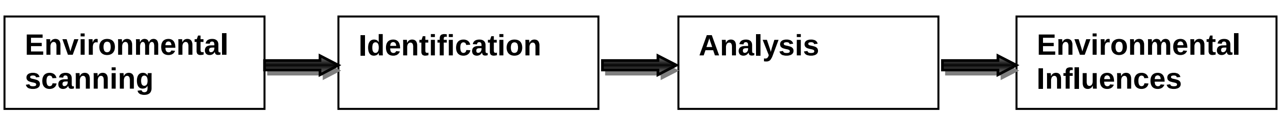
ENVIRONMENTAL SCANNING AND INTERNAL APPRAISAL ANALYSIS

An organization's environment consists of two parts:

1. The **macro environmental** dimensions. These are the major external and uncontrollable factors that influence an organizations decision making. eg. economic, technological, legal, political, socio-cultural and, global; and
2. The **micro environment** which refers mainly to the industry within which it operates (for multi-business firms, the industry is usually considered in the activity in which the firm generates the majority of the revenue).







Environmental scanning analysis is basically concerned with ***identification*** and ***analysis*** of ***environmental influences*** individually and collectively to determine their potential.

This analysis consists of tracing the sources of any opportunity or threat to break the whole into parts so as to examine its nature and its inter-relationship. It is an important aspect of strategic management because it serves as *"the first link in the chain of perceptions and actions that permit an organization to adapt to its environment*". It is from such analysis that ***management can make decisions*** on whether to react to, ignore or try to influence or anticipate future opportunities or threats discovered. Thus, it is a holistic exercise which includes a view of environment i.e., 360 degree coverage. It must scan the whole circumstance of its environment in order to minimize the chance of its surprises and maximize its utility as an early warning system.

Environmental conditions **affect the entire strategic management process**. Management's perceptions of present and future operating environments and internal strengths and weaknesses provide inputs to goal and action plan choices. They can also affect the manner in which implementation and internal circumstances will dictate the effectiveness of strategies as they are implemented. The implementation stage of strategic management provides the real, as opposed to the expected, interface between the firm and its environment.

ENVIRONMENTAL ANALYSIS

The dimensions of environment can be generally classified by a **set of key factors** that describe the economic, technological, legal, political, socio-cultural and, global surroundings. These, in turn, can be overlaid by the various constituents of the firm, including shareholders, customers, competitors, suppliers, employees, and the general public.

An analytical **classification** of various environmental factors are as follows:

1. Economic environment,
2. Technological environment,
3. Political-legal environment,
4. Socio-cultural environment, and
5. Global environment.

ECONOMIC ENVIRONMENT

In analyzing the economic environment, the organization intending to enter a particular business sector may consider the following aspects:

1. The economic system to enter the business sector.
2. The stage of economic growth and the pace of growth.
3. The level of national and per capita income.
4. The incidents of taxes, both direct and indirect.
5. The infrastructure facilities available and the difficulties thereof.
6. Availability of raw materials and components and the cost thereof.
7. The sources of financial resources and their costs.
8. Availability of manpower-managerial, technical and workers available and their salary and wage structures.

TECHNOLOGICAL ENVIRONMENT

In analyzing the technological environment, the organisation may consider the following aspects:

1. The level of technological development in the country as a whole and specific business sectors.
2. The pace of technological changes and technological obsolescence.
3. The sources of technology.
4. The restrictions and facilities for technology transfer and time taken for absorption of technology.

POLITICAL-LEGAL ENVIRONMENT

In analyzing political-legal environment, an organisation may broadly consider the following aspects:

1. Influence political system of the business;
2. Approaches of the Government towards business i.e., restrictive or facilitating;
3. Facilities and incentives offered by the Government;
4. Legal restrictions such as licensing requirement, reservation to a specific sector like public sector, private or small-scale sector;
5. Restrictions in importing technical know-how, capital goods and raw materials;
6. Restrictions in exporting products and services;
7. Restrictions on pricing and distribution of goods;
8. Procedural formalities required in setting the business;
9. Economic and Financial Sector Reforms.

SOCIAL AND CULTURAL FACTORS

In analyzing social and cultural factors, the organisation has to see the following aspects:

1. Approaches of the society towards business in general and in specific areas;
2. Influence of social, cultural and religious factors on acceptability of the product;
3. Life style of people and the products useful for them;
4. Level of acceptance of, or resistance to change;
5. Values attached to a particular product i.e. possessive value or functional value in the product;
6. Demand of specific products for specific occasions;
7. The propensity to consume and to save.

GLOBAL ENVIRONMENT

In analyzing global environment in the context of threats through import and operations of multinational corporations in the country, the following factors are to be considered:

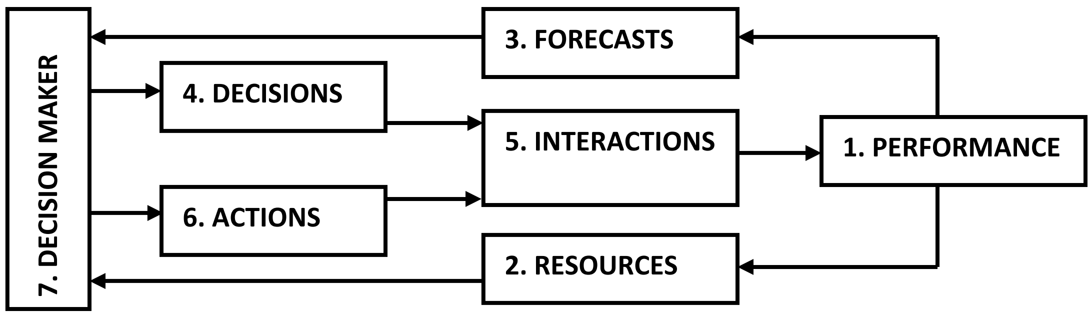
1. Comparative cost advantages through technological advancement and large scale production.
2. Tariff structure.

3. Attitudes of exporting nations and companies in the form of dumping and other means to take advantages over local companies.
4. Degree of subsidies and incentives, financial and non-financial, available to exporting companies.
5. Attitude of the customers abroad.

FORECASTING

Future is **unknown and uncertain**. So there is the need to translate environmental observations into forecasts of the environment within which future goal and action plan formulation and implementation will take place.

We forecast or predict environmental conditions in the context of opportunities and threats for the purpose of establishing a set of strategic data. This data becomes the basis **for goal and action plan decisions**. The general direction of change is addressed within the confines of anticipated limits.



FORECASTING TECHNIQUES

1. **Trend Extrapolation Technique:** his involves picking a tracking factor or environmental variable, noting its trend (statistically or otherwise), and extending that trend into the future.
2. **Historical Analogy Technique:** It involves identification of precursor or concurrent events and simple recognition of the relationship.
3. **Delphi Techniques**: Under this technique, the divergent expert opinions are consolidated to arrive at a compromise estimate of future. To be precise it basically involves the use of expert opinion through anonymous, interactive, controlled feedback among a group of participants. This technique is employed fairly widely in public and private sector planning. The key to Delphi technique lies in the coordinator and experts.
4. **Econometric Models**: The econometric models combine statistical tools with economic and business theories to estimate various economic variables and to forecast the intended variable. Basically the econometric models are designed as numerical interpretations of real-world systems. The forecast made on the basis of econometric models are much more reliable as compared to other techniques. The unique advantage of this technique is the ability to perform sensitivity analysis where the analyst changes assumptions or estimations within the model to generate varying outcomes.
5. **Cross-Impact Analysis Technique**: It is a forecasting technique which is designed to assess the interactions among future environmental conditions. The analyst begins these exercises by assuming that a set of future environmental circumstances will come true.

6. **Scanning and Monitoring Technique**: These are forecasting techniques which involve future thinking. The scan is the equivalent of a 360-degree radar sweep, but monitoring is the choice for specific environmental variables or factors which are tracked over time.
7. **Survey Technology**: Under this technique, field surveys are conducted to collect information on the intentions of the concerned people. The survey may be on census or sample basis. The information collected by this technique may be useful to identify and ascertain the attitudes of the consumers in regard to various items of expenditure and consumption.
8. **Business Barometer Technique**: Under this technique experts use economic indicators as barometer to forecast trends in business activities. The basic approach applied under this technique is to construct an index number of relevant economic indicator and to forecast future trends on the basis of movements in the index of economic indicators over the period.
9. **Time Series Analysis Technique**: It refers to an arrangement of statistical data in a chronological order in accordance with its time of occurrence. It basically reflects the dynamic pace of steady movements of phenomena over a period of time.
10. **Regression Analysis**: Regression analysis is the most popular and widely applied forecasting technique used by the experts. It is a mathematical analysis which reveals the relative movements of two or more interrelated series. It is used to estimate the changes in one variable as a result of specified changes in other variable or variables.
11. **Input-Output Analysis**: Input -output analysis considers inter industry relationship in an economy depicting how the output of one industry goes to another industry where it serves as an input and thereby makes one industry dependent on one another both, as customer of output and as supplier of inputs. An input-output model is a specific formulation of input-output analysis.

INDUSTRY ANALYSIS

Industry analysis **complements analysis of the other dimensions** of a firm's environment. It **focuses on the industries** in which the firm competes. The breadth and depth of industry analysis and the boundaries for information gathered are defined by these industries. Thus, industry analysis involves the same processes as those identified for environmental analysis, except that it logically must be preceded by identification of the appropriate industries for analysis along with descriptions of the various characteristics of those industries.

PORTER’S FIVE FORCES MODEL OF INDUSTRY ANALYSIS

Porter’s five forces assist in identifying the presence or absence of potential high returns. The weaker are the forces, greater is the opportunity for firms in an industry to experience superior profitability. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the market maneuvering and jockeying for buyer patronage that goes on among **RIVAL SELLERS** in the industry.

- Competitive pressures associated with the threat of **NEW ENTRANTS** into the market.

- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their **OWN SUBSTITUTE** products.

- Competitive pressures stemming from **SUPPLIER** bargaining power and supplier-seller collaboration.

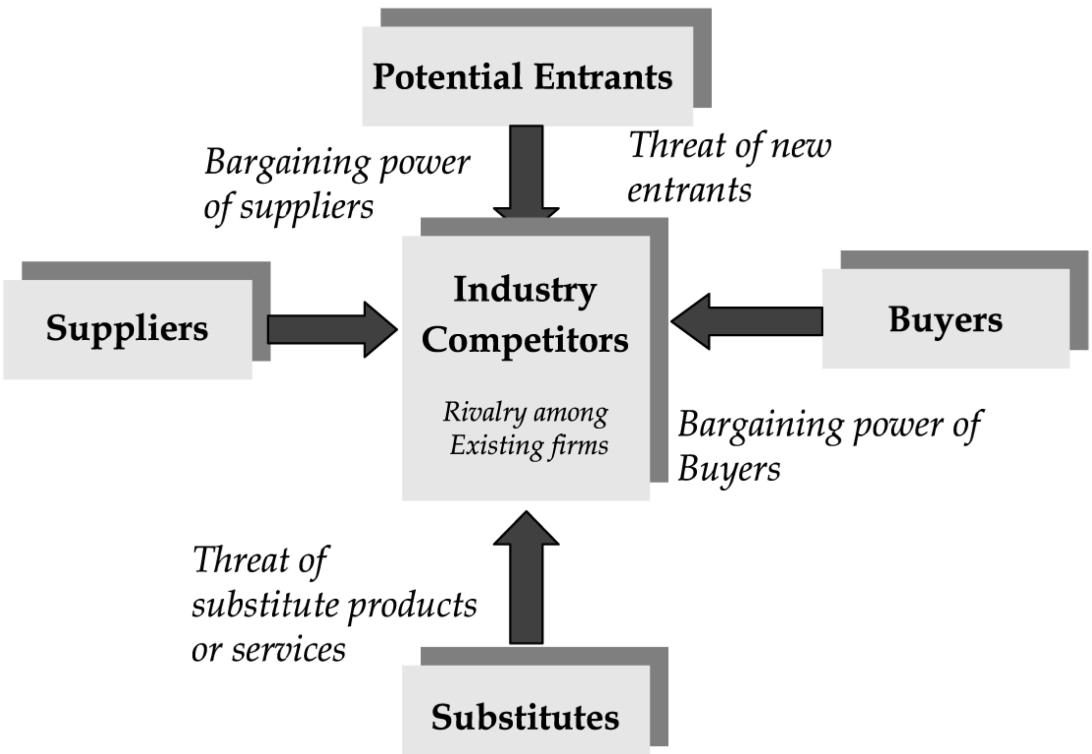
- Competitive pressures stemming from **BUYER** bargaining power and seller-buyer Collaboration.

The way one uses the five-forces model to determine what competition is like in a given industry is to build the picture of competition in three steps:

- **STEP 1**: Identify the specific competitive pressures associated with each of the five forces.

- **STEP 2**: Evaluate how strong the pressures comprising each of the five forces are (fierce, strong, moderate to normal, or weak).

- **STEP 3**: Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits.



THREAT OF NEW ENTRANTS: New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure, and the bigger the new entrant, the more severe the competitive effect.

BARGAINING POWER OF CUSTOMERS: This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products.

BARGAINING POWER OF SUPPLIERS: e bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

RIVALRY AMONG CURRENT PLAYERS: It is obvious that for any player, the competitors influence prices as well as the costs of competing in the industry, in production facilities product development, advertising, sales force, etc.

THREATS FROM SUBSTITUTES: Substitute products are a latent source of competition in an industry. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden.

The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/profitability. collective strength of these five competitive forces determines the scope to earn attractive profits. The strength of the forces may vary from industry to industry.

STRATEGIC GROUP MAPPING

Strategic group mapping is another important tool to look at external environment, especially the competition. The **firms which constitute an industry are not alike**. They have different products, market shares, life cycle stage, profitability, and so on. Indeed, each one has a different strategy, at least in its details. **But there are always some similarities.** There may be several people who are striving to be market leaders. Some may be pursuing low profit margin-high volume pricing. Others may have succeeded in lowering per unit costs, or creating a high-value-for-price image in the market. They may consist of several groups that represent different extents of geographical coverage or breadth of product line.

Following steps are involved in the construction of strategic group mapping:

1. Identification of two important competitive characteristics which strategically differentiate firms in an industry from one another;
2. Plot the firms on the two-variable map;
3. Draw circles around the firms that are clustered together;
4. Indicate potential movement of firms with arrows.

MERITS:

1. Identification of major and indirect rivals;
2. Picturing the competitive playing field;
3. Identification of open niches;
4. Identification of competitor moves;
5. Improved understanding of differential effects of external trends;
6. Identification of better/worse positions

LIMITATIONS:

1. It is more useful in fragmented industries;(An industry in which no single enterprise has large enough share of the market to be able to influence the industry's direction)

2. It is often difficult to meaningfully use it in consolidated industries;
3. It is only two dimensional;
4. It does not provide clear role of mobility barriers.

SWOT ANALYSIS

The comparison of strengths, weaknesses, opportunities and threats is normally referred to as a SWOT analysis.

- **Strengths**: is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

- **Weaknesses**: is an inherent limitation or constraint of the organization which creates strategic disadvantages to it.

- **Opportunity**: is a favourable condition in the organizations environment which enables it to strengthen its position.

- **Threat**: is an unfavourable condition in the organizations environment which causes a risk for or damage to the organizations position.

SWOT analyses aims to identify the key **internal and external** factors seen as important to achieving an objective. The factors come from within a company's unique value chain. SWOT analysis groups key pieces of information into two main categories:

- Internal factors – the strengths and weaknesses internal to the organization
- External factors – the opportunities and threats presented by the environment external to the organization

Analysis may view the internal factors as strengths or as weaknesses depending upon their effect on the organization's objectives. What may represent strengths with respect to one objective may be weaknesses (distractions, competition) for another objective.

The external factors may include macroeconomic matters, technological change, legislation, and socio-cultural changes, as well as changes in the marketplace or in competitive position. The results are often presented in the form of a matrix. In case the objective seems attainable, the SWOT is used as inputs to the creative generation of possible strategies, by asking and answering each of the following four questions:

- How can we use each Strength?
- How can we stop each Weakness?
- How can we exploit each Opportunity?
- How can we defend against each Threat?

SIGNIFICANCE OF SWOT

- It provides a ***logical framework*** for systematic and sound thrashing of issues having bearing on the business situation, generation of alternative strategies and a choice of strategy.
- It presents a ***comparative account***: it provides information about both internal and external environment in a structured form where it is possible to compare external opportunities and threats with internal weaknesses and strengths.
- It ***guides the strategists in strategy identification***: it helps the strategists to think of overall position of the company that helps to identify the major purpose of strategy under focus.

APPLE SWOT ANALYSIS 2013

Strengths	Weaknesses
1. Customer loyalty combined with expanding closed ecosystem 2. Apple is a leading innovator in mobile device technology 3. Strong financial performance ($10,000,000,000 cash, gross profit margin 43.9% and no debt) 4. Brand reputation 5. Retail stores 6. Strong marketing and advertising teams	1. High price 2. Incompatibility with different OS 3. Decreasing market share 4. Patent infringements 5. Further changes in management 6. Defects of new products 7. Long-term gross margin decline
Opportunities	**Threats**
1. High demand of iPad mini and iPhone 5 2. iTV launch 3. Emergence of the new provider of application processors 4. Growth of tablet and smartphone markets 5. Obtaining patents through acquisitions 6. Damages from patent infringements 7. Strong growth of mobile advertising market 8. Increasing demand for cloud based services	1. Rapid technological change 2. 2013 tax increases 3. Rising pay levels for Foxconn workers 4. Breached IP rights 5. Price pressure from Samsung over key components 6. Strong dollar 7. Android OS growth 8. Competitors moves in online music market

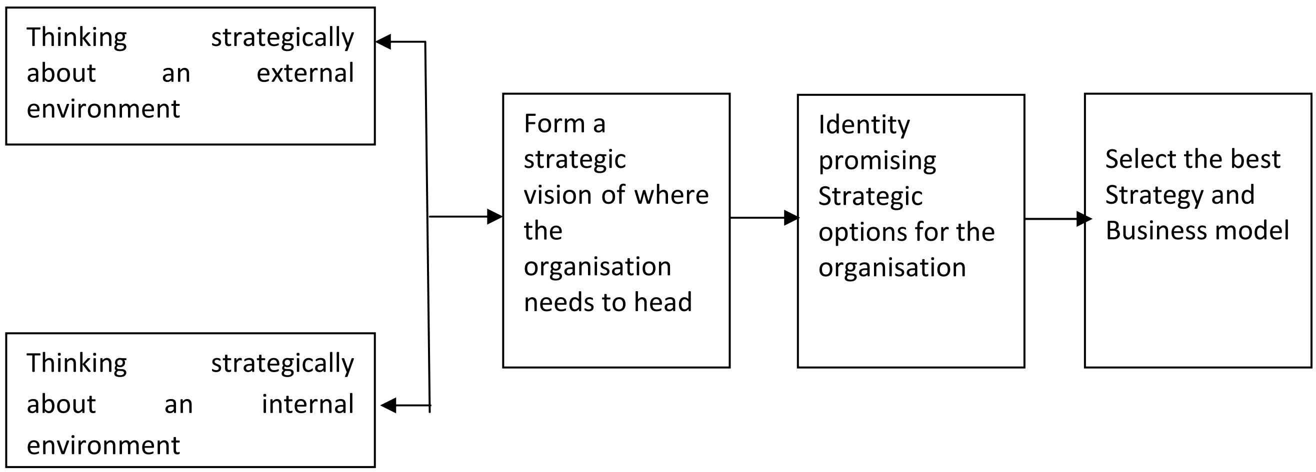
SITUATIONAL ANALYSIS

Situational analysis is used to determine where the organization is, as well as how far it needs to go to reach its goals. Situational analysis is an exercise which involves great deal of **gathering, classifying, analysis and understanding** of information. This consists of three separate processes:

1. External environmental analysis;

2. Internal environmental analysis; and
3. The development of the organization's mission, vision, values, and goals.

The interaction and results of these processes form the basis for the development of strategy. These three interrelated processes drive the strategy. The effort concentrates on generating solid answers to a well defined set of strategic situation and second to identify what its realistic strategic options are.



Forces in the external environment suggest —what the organization should do. That is, success is a matter of being effective in the environment – doing the —right thing. Strategy is additionally influenced by the internal resources, competencies, and capabilities of the organization and represents —what the organization can do.

Finally, strategy is driven by a common vision and set of common organizational values and goals. Vision, values, and goals are the result of considerable thought and analysis by top management and indicate —what the organization wants to do. Together, these forces are the essential input to strategy formulation.

PEST ANALYSIS

PEST analysis (**Political, Economic, Social and Technological analysis**) describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. These forces can create both opportunities and threats for an organization.
The aim of doing PEST is to find out the current factors affecting a company, what changes are going to happen in the external environment and to exploit those changes or defend against them better than competitors would do.
It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro environmental factors that the company has to take into consideration.
It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

The PEST analysis consists of following **five main steps**:

1. Understand a category's relevant trends:

- Research the important variables of the organisation's strategy.
- Determine the long term trends that apply to these variables.
- Research the past behaviour of these variables.
- Analyse the predictability of the trend lines and their fluctuations.
- Assess the impact of these trends on the organization.

2. Understand trend interdependencies:

- Analyse which trends are interrelated.
- Determine which trends conflict by understanding movements in opposite directions.

3. Distill likely issues from the identified trends:

- Validate the impact of trends on the organization.
- Distill the most critical trends that have the greatest impact given the organisation's objectives.

4. Forecast the direction of issues:

- Determine the fundamental drivers behind a critical trend.
- Assess the behaviour of the critical trend.
- Run a sensitivity test to assess impact.

5. Derive implications for the organization:

- Assess the affect of critical environmental changes on the industry.
- Assess affect of critical environmental changes on a firm's competitive position.
- Assess the affect of critical environmental changes on a direct competitor‘s position.
- Validate a firm's competitive nature.

GAP ANALYSIS

GAP analysis is the tool that helps companies compare actual performance with the potential performance. If a company doesn’t make the best use of current resources, or forgoes investment in capital or technology, it may produce or perform below its potential.

GAP analysis is the process of **identifying the gap** between the **optimized allocation and integration** of the **inputs** and the **current level of allocation**. This helps company provide insight into areas that have room for improvement.

The gap analysis process involves **determining, documenting and approving** the variance between business requirements and current capabilities.

Gap Analysis provides a framework for measuring of time, money and human resources required to achieve a particular outcome.

Gap analysis naturally flows from benchmarking and other assessments. Once the general expectation of performance in the industry is understood, it is possible to compare that expectation with the level of performance at which the company currently functions. This **comparison becomes the gap analysis**.
Once the gaps are properly identified, attention shifts to devising ways to close them. Gap analysis has been advocated for strategic choice decisions within the following four primary contexts:

Environmental GAP Analysis

For purposes of environmental analysis, gap analysis is a way of focusing on differences between the firm's strategy set and resources and the threats and opportunities that make up its environment. This planning gap can be filled by implementing new action plans, or strategic goals can be altered.

Function Level GAP Analysis:

A popular use for gap analysis is to compare actual and potential market variables for marketing strategy purposes. This overall gap is made up of the following four segments:

- Product-line gap – the portion due to each product in the full product line.
- Distribution gap – the portion caused by an inadequate distribution system.
- Usage gap – the part caused by less than full usage.
- Competitive gap – the segment caused by sales that are lost to direct competitors.

Business Level GAP Analysis:

There are similarities between gap analysis at the business level, gap analysis for environmental analysis and functional-level analysis. The focus is on gaps between actual and planned-for results according to such criteria as various profit measures, cash flow generation, management expertise, company image, and relative product quality.

Corporate Level GAP Analysis:

When applied to the corporate level, gap analysis focuses on the consolidated performance of the portfolio of business units.

PLANNING OF GAP

The need for new products or additions to existing lines may have emerged from the portfolio analysis. At some point a gap will have emerged between what the existing products offer the consumer and what the consumer demands. That gap has to be filled if the organization is to survive and grow. The planning may be divided into the following four elements:

1. **Usage Gap**: This is the gap between the total potential for the market and the actual current usage by all the consumers in the market. Market Potential and Existing Usage figures are needed for this calculation.
   Market Potential: The most difficult estimate to make is that of the total potential available to the whole market, including all segments covered by all competitive brands. It is often achieved by

determining the maximum potential individual usage, and extrapolating this by the maximum number of potential consumers.

Existing usage: The existing usage by consumers makes up the total current market, from which market shares, are calculated.

Thus, **Usage gap = Market potential – Existing usage**

2. **Product Gap**: The product gap, also known as the segment or positioning gap, represents that part of the market from which the individual organization is excluded because of product or service characteristics. The product gap is probably the main element of the planning process in which the organization can have a productive input; hence the emphasis is given on correct positioning.
3. **Competitive Gap**: Competitive gap refers to the share of business achieved among similar products, sold in the same market segment, and with similar distribution patterns or at least, in any comparison, after such effects have been discounted.
4. **Market Gap**: Another perspective is to look for gaps in the 'market' in a variation on product positioning', and using the multi -dimensional mapping', which the company could profitably address, regardless of where it's current products stand.

IMPACT ANALYSIS

Impact Analysis is a technique designed to unearth the **"unexpected" negative effects** of a change on an organization. It is a brainstorming technique which helps the users to think through the full **impacts of a proposed change**. It is an essential part of the evaluation process for major decisions.

It provides a structured approach for looking at a proposed change, so that you can **identify** as many of the **negative impacts or consequences of the change as possible**. **Firstly**, this makes it an important tool for evaluating whether you want to run a project. **Secondly**, and once the decision to go ahead has been made, it helps you prepare for and manage any serious issues that may arise.

Impact analysis either takes the form of **what if analysis or the sensitivity analysis**. What-if analysis is a brainstorming approach that uses broad, loosely structured questioning to (1) postulate potential impacts that may result by changing a particular variable in a system or model and (2) ensure that appropriate safeguards can be taken if the proposed changes create a possible negative impact on the system.

Impact analysis identifies the existing requirements in the baseline and other pending requirement changes where conflict with the proposed change continuously happens.

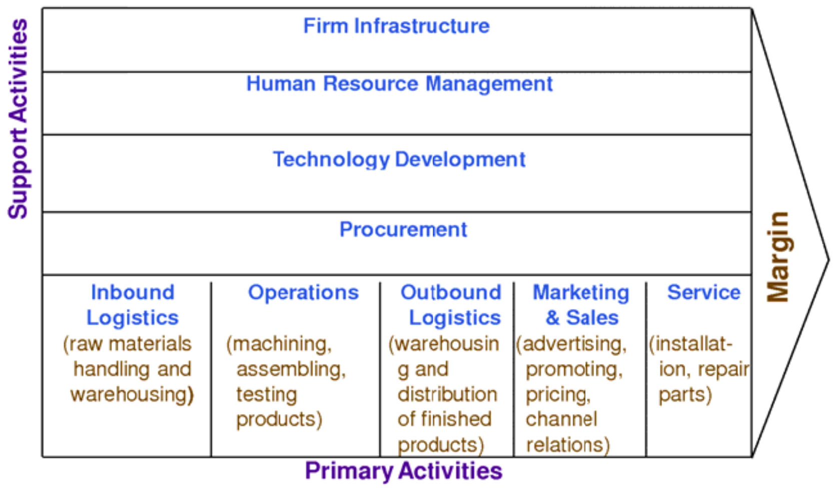
VALUE CHAIN ANALYSIS

Value chain analysis has been widely used as a means of describing the **activities within and around an organization**, and **relating** them to an **assessment of the competitive strength** of an organization. The concept comes from business management and was first described and popularized by Michael Porter

Value chain analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved.

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organised into routines and systems which ensure that products or services are produced which are valued by the final consumer/user.

It is the competences to perform particular activities and the ability to manage linkages between activities which are the source of competitive advantage for organizations. Porter argued that an understanding of strategic capability must start with an identification of these separate value activities.



The **<u>PRIMARY ACTIVITIES</u>** of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

1. **<u>Inbound logistics</u>** are the activities concerned with receiving, storing and distributing the inputs to the product/service. This includes materials handling, stock control, transport etc.

2. **<u>Operations</u>** transform these various inputs into the final product or service: machining, packaging, assembly, testing etc.

3. **<u>Outbound logistics</u>** collect, store and distribute the product to customers. For tangible products this would be warehousing, materials handling, transport, etc. In the case of services, it may be more concerned with arrangements for bringing customers to the service if it is a fixed location (e.g. sports events).

4. **<u>Marketing and sales</u>** provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling and so on. In public services, communication networks which help users' access a particular service are often important.

5. **<u>Service</u>** are all those activities, which enhance or maintain the value of a product/service, such as installation, repair, training and spares.

Each of these groups of primary activities are linked to **SUPPORT ACTIVITIES**. These can be divided into four areas:

1. **Procurement**: This refers to the processes for acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.

2. **Technology development**: All value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product or with processes or with a particular resource.

3. **Human resource management**: This is a particularly important area which transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.

Infrastructure: The systems of planning, finance, quality control, information management, etc. are crucially important to an organization's performance in its primary activities. Infrastructure also consists of the structures and routines of the organization which sustain its culture.

BUSINESS PROCESS RE-ENGINEERING (BPR)

Business process re-engineering is a business management strategy, originally pioneered in the early 1990s, focusing on the **analysis and design** of **workflows and processes** within an organization.

Business process re-engineering (BPR) is a management approach aimed at improvements by means of **elevating efficiency and effectiveness** of the processes which exists within and across organizations. The key to business process re-engineering organizations is to look at their business processes from a clean perspective and determine how they can best construct these processes to improve the conduct of their business.

Business process re-engineering can be defined as the analysis and design of workflows and processes within and between organizations. Business process re-engineering is also known as business process redesign, business transformation or business process change methodology.

Objectives of Business Process Re-engineering

The basic objectives of business process re-engineering in an organization include the following:

1. Elimination of Redundant Processes: to make the organization result oriented, the processes which are irrelevant must be eliminated.
2. Reduction in Cycle Time: Business process re-engineering also aim to reduce the cycle timing of processing for completing the job.

Steps for Business Process Re-engineering

Following steps are considered for business process re-engineering:

1. **Developing business vision and process objective:** Under this process it is desirable that a vision of organization is defined clearly so that one can put business process function in tune with the vision. Basically organizational vision depicts the challenging position what the organization will be in future. Thus, in the light of business vision, organization should define the objective of business processes.
2. **Identifying the process to be redesigned**: Once business vision and process objectives are clearly defined, the organization should focus and identify the process which needs redesigning.
3. **Measuring the performances of existing processes**: Under this step, the organisation should focus on various methods used to measure the performance of a process to determine whether an opportunity exists to improve its efficiency, effectiveness and adaptability.
4. **Identification of the opportunity for application of information technology**: Under this step, the emphasis is placed on application of IT knowledge to support a process and redesign the process accordingly.
5. **Building prototype of new processes**: Under this step, the organization should design a new process on an experimental basis in the light of series of revision and improvement until the redesign process is put in actual operation. The prototype must be tested to measure this performance and incorporate needed changes

CHAPTER 3

PLANNING AND FORMULATION

VISION

A Strategic vision is a ***Road Map of a Company's Future*** – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

Strategic vision delineates management's aspirations for the business, providing a panoramic view of the ***"where we are going"*** and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an ***organization in a particular direction***, charts a ***strategic path*** for it to follow in preparing for the future, and molds ***organizational identity***. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

The three elements of a strategic vision:

1. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of **"Who we are and where we are now?"**
2. Using the mission statement as basis for deciding on a long-term course making choices about **"Where we are going?"**
3. Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

Purpose of Developing strategic vision:

- ❖ The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- ❖ Forming a strategic vision is an exercise in intelligent entrepreneurship.
- ❖ Many successful organizations need to change direction not in order to survive but in order to maintain their success.
- ❖ A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organization.
- ❖ The best-worded vision statement clearly and crisply illuminates the direction in which organization is headed.

MISSION

Mission defines the fundamental purpose of an organization or an enterprise, succinctly describing why it exists and what it does to achieve its vision. A company's Mission statement is typically focused on its present business scope – "who we are and what we do". Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup.

Peter Drucker says that asking the question, "What is our business?" is synonymous with asking the question, "What is our mission?"

A mission is an enduring statement of purpose that distinguishes one organization from other similar enterprises. The mission statement is a declaration of an organization's "reason for being."

Sometimes called a creed statement, a statement of purpose, a statement of philosophy, a statement of beliefs, a statement of business principles, or a statement "defining our business," a mission statement reveals what an organization wants to be and whom it wants to serve.

WHY ORGANIZATION SHOULD HAVE MISSION?

- To ensure unanimity of purpose within the organization.
- Provide a basis for motivating the use of the organization's resources.
- To develop a basis, or standard, for allocating organizational resources.
- To establish a general tone or organizational climate, for example, to suggest a business like operation.
- To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot form participating further in the organization's activities.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
- To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

A **Good Mission Statement** should be of ***precise***, ***clear***, ***feasible***, ***distinctive*** and ***motivating***. It should indicate major components of strategy. Following points are useful while writing mission of a company:

- One of the roles of a mission statement is to give the organization its own ***Special Identity***, business emphasis and path for development – one that typically sets it apart form other similarly situated companies.
- A company's business is defined by what ***needs*** it trying to satisfy, by which ***customer groups*** it is targeting and by the ***technologies*** and ***competencies*** it uses and the activities it performs.
- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- Good mission statements are ***highly personalized*** – unique to the organization for which they are developed.

PETER DRUCKER explained that towards facilitating this task, the firm should raise and answer certain basic ***Questions*** concerning its business, such as:

- What is our mission?
- What is our ultimate purpose?
- What do we want to become?
- What kind of growth do we seek?
- What business are we in?
- Do we understand our business correctly and define it accurately in its broadest connotation?
- Do we know our customer?
- Whom do we intend to serve?
- What human need do we intend to serve through our offer?

- What brings us to this particular business?
- What would be the nature of this business in the future?
- In what business would we like to be in, in the future?

MISSION	PURPOSE
It refers to a statement which defines the role that organization plays in the society.	It refers to anything an organization strives for.
It strictly refers to the particular needs of the society, e.g. Quality product/ services.	It relates to what the organization strives to achieve in order to fulfill its mission to the society.

OBJECTIVES AND GOALS

Objectives are organizations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organizations performance and progress.
Objectives are **open-ended** attributes that denote the future states or outcomes. **Goals** are **close-ended** attributes which are precise and expressed in specific terms.

The pursuit of objectives is an unending process such that organizations sustain themselves. They provide meaning and sense of direction to organizational endeavor.

Objectives also act as benchmarks for guiding organizational activity and for evaluating how the organization is performing.

Objective to be meaningful to serve the intended role must possess following **CHARACTERISTICS**:

- Objectives should define the organization's relationship with its environment.
- They should be facilitative towards achievement of mission and purpose.
- They should provide the basis for strategic decision-making.
- They should provide standards for performance appraisal.
- Objectives should be understandable.
- Objectives should be concrete and specific
- Objectives should be related to a time frame
- Objectives should be measurable and controllable
- Objectives should be challenging
- Different objectives should correlate with each other
- Objectives should be set within constraints

DIFFERENCE BETWEEN GOALS AND OBJECTIVES

- Goals are broad objectives are narrow.
- Goals are general intentions; objectives are precise.
- Goals are intangible; objectives are tangible.
- Goals are abstract; objectives are concrete.
- Goals can't be validated as is; objectives can be validated.

OFFENSIVE STRATEGIES

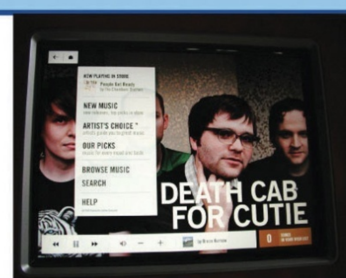
Offensive strategies are those strategies which are employed by management to reach goals related to increase in sales or market share, and in some cases profitability. It should be pointed out that bringing about an increase in market share alone may not always satisfy performance expectations.

1. **CONCENTRATION STRATEGIES**: these are primarily the marketing moves attempted to improve sales or profitability by getting more out of resources currently available within the organization.
2. **MARKET PENETRATION**: Market penetration is the percentage of a target market that consumes a product or service. Market penetration can also be a measure of one company's sales as a percentage of all sales for a product. Market penetration for a good or service indicates potential for increased sales. In other words, the smaller a product's market penetration, the more a company should invest in its strategy for marketing that item. For this reason, high market penetration indicates that a product has become established and the company is a market leader. The father of Strategic Management, H. Igor Ansoff defines Market Penetration as one of the four growth strategies of the Product-Market Growth Matrix. In simple words, it is a marketing strategy used to sell the existing products to the existing markets. Though market penetration is the least risky growth strategy, it depends upon some conditions, which are:
   a) Unsaturated market
   b) An increase in industry growth rate, but decrease in competitive market share
   c) Existing customers' willingness to purchase higher quality of existing products/services
   d) Economies of scale provide a competitive edge
3. **PRODUCT DEVELOPMENT:** Market development involves introducing present products or services into new geographic areas. The climate for international market development is becoming more favorable. In many industries, such as airlines, it is going to be hard to maintain a competitive edge by staying close to home.
4. **HORIZONTAL MERGER**: is a business consolidation that occurs between firms who operate in the same space, often as competitors offering the same good or service. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much greater for merging firms in such an industry. This type of merger occurs frequently, because of larger companies attempting to create more efficient economies of scale. The amalgamation of Daimler-Benz and Chrysler is a popular example of a horizontal merger.

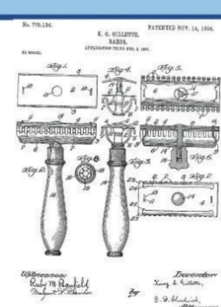
Concentration strategies involve trying to grow by successfully competing only within a single industry. We illustrate the three concentration strategies below.

Market penetration involves trying to gain additional share of a firm's existing markets using existing products—often by relying on extensive advertising. Perhaps the most famous example of two close rivals simultaneously attempting market penetration is the "cola wars" where Coca-Cola and PepsiCo fight for share in the soft drink market. Pepsi's blind taste tests in 1975 called the Pepsi Challenge is one of the more famous attacks in this ongoing battle.

Market development involves taking existing products and trying to sell them within new markets. Starbucks engages in market development by selling their beans and bottled drinks in grocery stores. Apple engages in market development by allowing customers in Starbucks stores to connect directly to iTunes store and Starbucks Now Playing content. Customers are offered a free download to get them to visit iTunes—and to perhaps purchase more songs.



Product development involves creating new products to serve existing markets. King Gillette, an American businessman whose family hailed from France, pioneered the safety razor that bears his family name. His company's more recent innovations in the razor market include Trac II (the first two-blade razor), Atra (first razor with a pivoting head), Sensor (first razor with spring-loaded blades), Mach 3 (first three-blade razor), and Fusion (first six-blade razor). Is the ten-blade razor coming soon?



*Horizontal integration refers to pursuing a concentration strategy by acquiring or merging with a rival. The term **merger** is generally used when two similarly sized firms are integrated into a single entity. In an acquisition, a larger firm purchases and absorbs a smaller firm. We illustrate examples of each below.*

ExxonMobil is a direct descendant of John D. Rockefeller's Standard Oil Company. It was formed by the 1999 merger of Exxon and Mobil. As in many mergers, the new company name combines the old company names.

Starbucks acquired competitor Seattle's Best Coffee—which had a presence in Borders Bookstores and Subway Restaurants—in order to target a more working-class audience without diluting the Starbucks brand.

Bill Hewlett and Dave Packard formed Hewlett-Packard in a garage after graduating from Stanford in 1935. In recent years, HP has pursued horizontal integration through a merger with Compaq and the acquisition of Palm.

DaimlerChrysler was formed in 1998 when Chrysler entered into what was billed as a "merger of equals" with Germany's Daimler-Benz AG. The marriage failed, and Chrysler is currently owned by Italian automaker Fiat.

Global pharmaceutical firm GlaxoSmithKline plc was formed by the merger of GlaxoWellcome plc and SmithKline Beecham plc in 2000.

GENERIC STRATEGIES

1. **<u>NICHING OR FOCUS STRATEGY</u>**:
    - A niche is a need in the market place that is currently unsatisfied.
    - A niche market is a focused targetable sub-set of a market.
    - A business organization which focuses on a niche market addresses a need for product or service which is not being addressed by main stream providers.
    - A niche market may be thought of a narrowly defined group of potential customers.
    - Niche market ventures may become profitable even though they are by nature small in comparison to the mainstream market place due to the benefits of specialization and focus on identifiable small market segment even without benefit of economy of scale.

- For big companies, these market segments are too small in order to serve them profitably as these market segments often lack economies of scale.

2. **LOWER COST**: A pricing strategy in which a company offers a relatively low price to stimulate demand and gain market share. It is one of three generic marketing strategies that can be adopted by any company, and is usually employed where the product has few or no competitive advantage or where economies of scale are achievable with higher production volumes. Also called low price strategy.

   If a business is able to achieve and maintain comprehensive cost management, then it can make the price equal to or close to the average price level of the industry. When the leading enterprise cost their price equal to or less than its competitors, its low cost position can be transformed into high-yield.

3. **DIFFERENTIATION**:
   - Approach under which a firm aims to develop and market unique products for different customer segments.
   - Usually employed where a firm has clear competitive advantages, and can sustain an expensive advertising campaign.
   - It is one of three generic marketing strategies that can be adopted by any firm.
   - A strategy employed by businesses to increase the perceived value of their brand or products as a way to entice buyers to choose their products over similar products offered by their competitors.
   - Differentiation can be achieved through competitive pricing, enhancements to functional design or features, distribution timing, expanded distribution channels, distributor location, brand reputation, product customization, and enhanced customer support.

INTEGRATION STRATEGIES

1. **BACKWARD INTEGRATION**: it involves seeking ownership or increased control of a firms suppliers or supply activities. Backward integration effective when:
   - present suppliers are especially expensive or unreliable
   - number of suppliers is small and the number of competitors is large
   - competes in an industry growing and expected to continue to grow
   - an organization has both capital and HR to manage new business of supplying its own raw materials
   - the advantages of a stable raw material price particularly important
   - present suppliers have high profit margin.
2. **FORWARD INTEGRATION**: it involves gaining ownership or increased control over distributors or retailers, i.e. the external portion of the organizations marketing system. This is a downstream expansion which refers to moving higher up in the production and or distribution process towards the end user or consumer.
3. **HORIZONTAL INTEGRATION**: It is the process of acquiring or merging with competitors, leading to industry consolidation. Horizontal integration is a strategy where a company acquires, mergers or takes over another company in the same industry value chain. It is a type of integration strategies pursued by a company in order to strengthen its position in the industry. A corporate that implements this type of strategy usually mergers or acquires another company that is in the same

production stage. The purpose of horizontal integration (HI) is to grow the company in size, increase product differentiation, achieve economies of scale, reduce competition or access new markets. When many firms pursue this strategy in the same industry, it leads to industry consolidation.

DIVERSIFICATION STRATEGIES

Diversification is a corporate strategy to increase sales volume from new products and new markets. Diversification can be expanding into a new segment of an industry that the business is already in, or investing in a promising business outside of the scope of the existing business.

CONCENTRIC DIVERSIFICATION OR RELATED DIVERSIFICATION:

Concentric diversification occurs when a firm adds related products or markets. The goal of such diversification is to achieve strategic fit. Strategic fit allows an organization to achieve synergy. In essence, synergy is the ability of two or more parts of an organization to achieve greater total effectiveness together than would be experienced if the efforts of the independent parts were summed. Synergy may be achieved by combining firms with complementary marketing, financial, operating, or management efforts. Breweries have been able to achieve marketing synergy through national advertising and distribution. By combining a number of regional breweries into a national network, beer producers have been able to produce and sell more beer than had independent regional breweries.

Financial synergy may be obtained by combining a firm with strong financial resources but limited growth opportunities with a company having great market potential but weak financial resources. For example, debt-ridden companies may seek to acquire firms that are relatively debt-free to increase the lever-aged firm's borrowing capacity. Similarly, firms sometimes attempt to stabilize earnings by diversifying into businesses with different seasonal or cyclical sales patterns.

Strategic fit in operations could result in synergy by the combination of operating units to improve overall efficiency. Combining two units so that duplicate equipment or research and development are eliminated would improve overall efficiency. Quantity discounts through combined ordering would be another possible way to achieve operating synergy. Yet another way to improve efficiency is to diversify into an area that can use by-products from existing operations.

CONGLOMERATE DIVERSIFICATION OR UNRELATED DIVERSIFICATION:

Conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. Synergy may result through the application of management expertise or financial resources, but the primary purpose of conglomerate diversification is improved profitability of the acquiring firm. Little, if any, concern is given to achieving marketing or production synergy with conglomerate diversification.

One of the most common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited. Finding an attractive investment opportunity requires the firm to consider alternatives in other types of business. Philip Morris's acquisition of Miller Brewing was a conglomerate move. Products, markets, and production technologies of the brewery were quite different from those required to produce cigarettes.

Firms may also pursue a conglomerate diversification strategy as a means of increasing the firm's growth rate. As discussed earlier, growth in sales may make the company more attractive to investors. Growth may also increase the power and prestige of the firm's executives. Conglomerate growth may be effective if the new area has growth opportunities greater than those available in the existing line of business.

Probably the biggest disadvantage of a conglomerate diversification strategy is the increase in administrative problems associated with operating unrelated businesses. Managers from different divisions may have different backgrounds and may be unable to work together effectively. Competition between strategic business units for resources may entail shifting resources away from one division to another. Such a move may create rivalry and administrative problems between the units.

INTERNAL DIVERSIFICATION:

One form of internal diversification is to market existing products in new markets. A firm may elect to broaden its geographic base to include new customers, either within its home country or in international markets. A business could also pursue an internal diversification strategy by finding new users for its current product. Finally, firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels.

Another form of internal diversification is to market new products in existing markets. Generally this strategy involves using existing channels of distribution to market new products. Retailers often change product lines to include new items that appear to have good market potential. Johnson & Johnson added a line of baby toys to its existing line of items for infants. Packaged-food firms have added salt-free or low-calorie options to existing product lines.

It is also possible to have conglomerate growth through internal diversification. This strategy would entail marketing new and unrelated products to new markets. This strategy is the least used among the internal diversification strategies, as it is the most risky. It requires the company to enter a new market where it is not established. The firm is also developing and introducing a new product. Research and development costs, as well as advertising costs, will likely be higher than if existing products were marketed. In effect, the investment and the probability of failure are much greater when both the product and market are new.

EXTERNAL DIVERSIFICATION:

External diversification occurs when a firm looks outside of its current operations and buys access to new products or markets. Mergers are one common form of external diversification. Mergers occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger management team. This can be achieved in a merger by combining the management teams from the merged firms.

Acquisitions, a second form of external growth, occur when the purchased corporation loses its identity. The acquiring company absorbs it. The acquired company and its assets may be absorbed into an existing business unit or remain intact as an independent subsidiary within the parent company. Acquisitions usually occur when a larger firm purchases a smaller company. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. (Mergers are usually "friendly.") Unfriendly mergers or hostile takeovers occur when the management of the firm targeted for acquisition resists being purchased.

VERTICAL INTEGRATION:

The steps that a product goes through in being transformed from raw materials to a finished product in the possession of the customer constitute the various stages of production. When a firm diversifies closer to the sources of raw materials in the stages of production, it is following a backward vertical integration strategy.

RATIONAL FOR DIVERSIFICATION AND INTEGRATION

1. To Grow:
   - Increase sales & profitability beyond what firm's core businesses can provide
   - Managerial self-serving behavior – compensation
   - Managerial "hubris" -- pride or status that come from managing a large business
2. To more fully utilize existing resources and capabilities
   - Skills in sales & marketing, general management skills & knowledge, distribution channels, etc.
3. Risk reduction and/or spreading
   - Escape from unattractive or undesirable industries (e.g., tobacco & oil companies)
   - Stability of profit flows (CAPM: systematic vs. unsystematic risks; shareholders & diversified portfolios)
4. To make use of surplus cash flows
   - Large cash balances attract corporate raiders
   - Use cash balances to avoid hostile takeovers
5. To build shareholder value
   - Create synergy among the businesses of a firm
   - Make 2 + 2 = 5: The whole should be greater than the sum of the parts.

DEFENSIVE STRATEGIES

1. RETRENCHMENT STRATEGIES

A retrenchment grand strategy is followed when an organization aims at a contraction of its activities through substantial reduction or the elimination of the scope of one or more of its businesses in terms of their respective customer groups, customer functions, or alternative technologies either singly or jointly in order to improve its overall performance.

2. DIVESTMENT STRATEGIES

A divestment strategy involves the sale or liquidation of a portion of business, or a major division, Profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

3. LIQUIDATION STRATEGIES

Liquidation strategy means closing down the entire firm and selling its assets. It is considered the most extreme and the last resort because it leads to serious consequences such as loss of employment for employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

OTHER STRATEGIES

JOINT VENTURE STRATEGIES:

Joint ventures are a special case of consolidation where two or more companies from a temporary form a temporary partnership (also called a consortium) for a specified purpose. They occur when an independent firm is created by at least two other firms. Joint ventures may be useful to gain access to a new business mainly under these conditions

- When an activity is uneconomical for an organization to do alone
- When the risk of business has to be shared
- When the distinctive competence of two or more organization can be brought together.
- When the organization has to overcome the hurdles, such as import quotas, tariffs, nationalistic – political interests, and cultural roadblock

HARVESTING:

It refers to a strategy which is concerned with the systematic removal of cash and other assets from a slow growth or declining business.

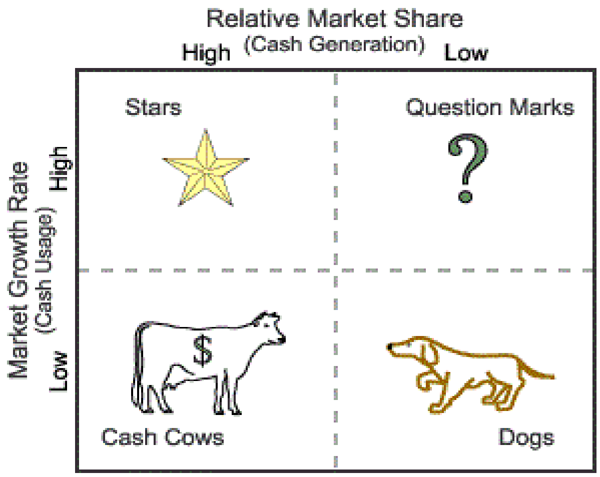
MERGERS AND ACQUISITIONS STRATEGIES:

BCG MATRIX OR GROWTH SHARE MATRIX(GSM)

The Boston Consulting Group (BCG) Matrix is a simple tool to assess a company's position in terms of its product range. It helps a company think about its products and services and make decisions about which it should keep, which it should let go and which it should invest in further.

STARS

Stars generate large sums of cash because of their strong relative market share, but also consume large amounts of cash because of their high growth rate. So the cash being spent and brought in approximately nets out. If a star can maintain its large market share it will become a cash cow when the market growth rate declines.



CASH COWS

As leaders in a mature market, cash cows exhibit a return on assets that is greater than the market growth rate – so they generate more cash than they consume. These units should be 'milked' extracting the profits and investing as little as possible. They provide the cash required to turn question marks into market leaders.

QUESTION MARKS

Question marks are products that grow rapidly and as a result consume large amounts of cash, but because they have low market shares they don't generate much cash. The result is large net cash consumption. A question mark has the potential to gain market share and become a star, and eventually a cash cow when the market growth slows. If it doesn't become a market leader it will become a dog when market growth declines. Question marks need to be analysed carefully to determine if they are worth the investment required to grow market share.

DOGS

Dogs have a low market share and a low growth rate and neither generate nor consume a large amount of cash. However, dogs are cash traps because of the money tied up in a business that has little potential. Such businesses are candidates for divestiture.

Once the company has identified the stage the company has to decide the role to be played. These roles are following:

1. **BUILD**- to increase market share, even by forging short term earning in favour of building strong future with large market share.
2. **HOLD-** to preserve market share.
3. **HARVEST**- to increase short term cash flow regardless long term effect.
4. **DIVEST**- to sell or liquidate the business.

Limitations:

BCG matrix can be difficult, time-consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. It also focuses on classifying current businesses but provide little advice for future planning. They can lead the company to placing too much emphasis on market-share growth or growth through entry into attractive new markets. This can cause unwise expansion into hot, new, risky ventures or giving up on established units too quickly.

GE MATRIX

In consulting engagements with General Electric in the 1970's, McKinsey & Company developed a nine-cell portfolio matrix as a tool for screening GE's large portfolio of strategic business units (SBU). This business screen became known as the **GE/McKinsey Matrix.**
The strategic planning approach in this model has been inspired from traffic control lights. The lights that are used at crossings to manage traffic are: green for go, amber or yellow for caution, and red for stop.

This model uses two factors while taking strategic decisions: Business Strength and Market Attractiveness. The vertical axis indicates market attractiveness and the horizontal axis shows the business strength in the industry.

BUSINESS STRENGTH

MARKET ATTRACTIVENESS

	Strong	**Average**	**Weak**
High			
Medium			
Low			

ZONE		**STRATEGIC SIGNALS**
Green		**Invest/Expand**
Yellow		**Select/Earn**
Red		**Harvest/Divest**

The position and attractiveness can be understood by better way with the following table:

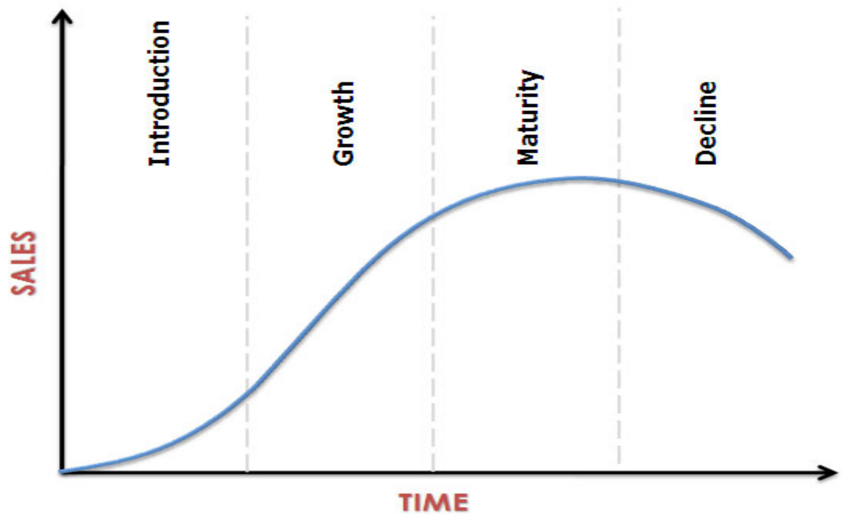
Evaluating the ability to compete: Business Strengths	Evaluating the market Attractiveness
Market share	Size of the market
Market share growth rate	Market growth rate
Profit margin	Industry profitability
Distribution efficiency	Competitive intensity
Brand image	Availability of Technology
Ability to compete on price and quality	Pricing trends
Customer loyalty	Overall risk of returns in the industry
Production capacity	Opportunity for differentiation of products and services
Technological capability	Demand variability
Relative cost position	Segmentation
Management caliber, etc	Distribution structure (e.g. retail, direct, wholesale) etc

- If a product falls in the ***Green section***, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow.
- If a product is in the ***Amber or yellow zone***, it needs caution and managerial discretion is called for making the strategic choices.
- If a product is in the ***Red zone***, it will eventually lead to losses that would make things difficult for organisations. In such cases, the appropriate strategy should be retrenchment, divestment or liquidation.

PRODUCT LIFE CYCLE

It is a useful choice for guiding strategic choice. PLC is an - **S-shaped curve** which exhibits the **relationship of sales** with respect to **time** for a product that passes through the four successive stages of :

- introduction (slow sales growth),
- growth (rapid market acceptance)
- maturity (slow down in growth rate) and
- Decline (sharp downward drift).



The **first stage** of PLC i.e. **INTRODUCTION STAGE** is characterized by low growth rate of sales as the product is newly launched in the market. Firms usually incur losses rather than profit turning this stage. If the product is in the new product class, the users may not be aware of its true potential. The stage has the following characteristics: 1. Low competition 2. Firm mostly incurs losses and not profit.

The **second stage is GROWTH STAGE.** Growth comes with the acceptance of the innovation in the market and profit starts to flow. In this the demands expands rapidly, price fall, competition increases and market expands.

The **third stage** is **MATURITY STAGE**, the end of stage of the growth rate and sales slowdown as the product has already achieved acceptance in the market. Profits come down because of stiff competition. The organizations may work for stability.

The **last stage** is the **DECLINING STAGE**; the decline stage is where most of the product class usually dies due to low growth rate in sales. A number of companies share the same market, making it difficult for all entrants to maintain sustainable sales levels. Not only is the efficiency of the company an important factor in the decline, but also the product category itself becomes a factor, as the market may perceive the product as "old" and may not be in demand.

STRATEGIC PLANNING

Planning is future oriented. It relates to deciding what needs to done in the future and to ***generate blueprints*** for action. Good planning is an important constituent of good management. Planning involves determining what resources are available, what resources can be obtained, and allocating responsibilities according to the potential of the employees.

Strategic planning is a process of ***determining organizational strategy***. It gives direction to the organization and involves making ***decisions*** and ***allocating resources*** to pursue the strategy. It is the formal consideration of future course of an organization. Strategic planning deals with one or more of three key questions:

1. What are we doing?

2. For whom do we do it?
3. How to improve and excel?

Strategic planning determines where an organization is going over the next year or more and the ways for going there. The process is organization-wide, or focused on a major function such as a division or other major function. Strategic planning is a top level management function.

IMPLEMENTATION AND CONTROL

Strategic implementation is critical to a company's success, addressing the - who, where, when, and how of reaching the desired goals and objectives. Strategic implementation put simply is the process that puts plans and strategies into action to reach goals.

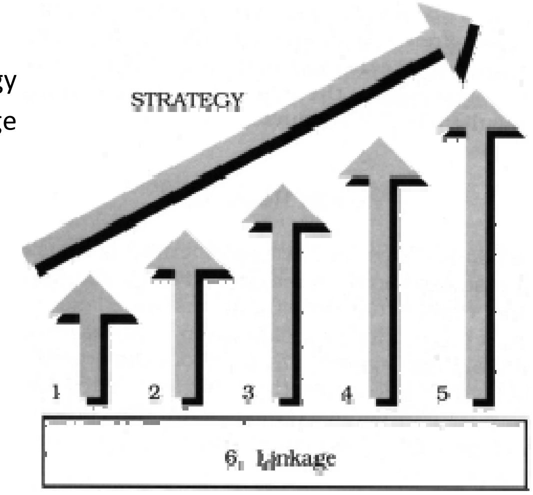
A strategic plan is a written document that lays out the plans of the business to reach goals, but will sit forgotten without strategic implementation. The implementation makes the company's plans happen. A successful implementation plan will have a very visible leader, such as the CEO, as he communicates the vision, excitement and behaviors necessary for achievement. Everyone in the organization should be engaged in the plan.

Implementation often includes a strategic map, which identifies and maps the key ingredients that will direct performance. Such ingredients include finances, market, work environment, operations, people and partners.

STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.
In short, Strategy Formulation is **placing the Forces before the action**.	In short, Strategy Implementation is **managing forces during the action**.
Strategy Formulation is an **Entrepreneurial Activity** based on strategic decision-making.	Strategic Implementation is mainly an **Administrative Task**based on strategic and operational decisions.
Strategy Formulation emphasizes on **effectiveness**.	Strategy Implementation emphasizes on **efficiency**.
Strategy Formulation is a **rational process**.	Strategy Implementation is basically an **operational process**.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of **initiative and logical skills**.	Strategy Implementation requires specific **motivational and leadership traits**.
Strategic Formulation precedes Strategy Implementation.	STrategy Implementation follows Strategy Formulation.

Organizations successful at strategy implementation effectively manage six key supporting factors:

1. Action Planning
2. Organization Structure
3. Human Resources
4. The Annual Business Plan
5. Monitoring and Control
6. Linkage.



1. **Action Planning:** First, organizations to be successful at implementing strategy need to develop detailed action plans. i.e., chronological lists of action steps (tactics) which add the necessary detail to their strategies. And assign responsibility to a specific individual for accomplishing each of those action steps. Also, they set a due date and estimate the resources required to accomplish each of their action steps. Thus they translate their broad strategy statement into a number of specific work assignments.

2. **Organizational Structure:** Next, those successful strategists should give thought to their organizational structure, and see if their intended strategy fits their current structure.

3. **Human Resource Factors:** Organizations should consider the human resource factor in making strategies successful. Further, they have to realize that the human resource issue is really a two part story. First, consideration of human resources requires that management think about the organization's communication needs. That they articulate the strategies so that those charged with developing the corresponding action steps (tactics) fully understand the strategy they're to implement.

   Second, managers successful at implementation are aware of the effects each new strategy will have on their human resource needs. They must ask themselves the questions... "How much change does this strategy call for?" And, "How quickly must we provide for that change?" And, "What are the human resource implications of our answers to those two questions?"

4. **The Annual Business Plan:** Organizations must be aware of their need to fund their intended strategies. And they have to think about that necessary financial commitment early in the planning process.

5. **Monitoring & Control:** Monitoring and controlling the plan includes a periodic look to see if you're on course. It also includes consideration of options to get a strategy once derailed back on track. Those options (listed in order of increasing seriousness) include changing the schedule, changing the action steps (tactics), changing the strategy or (as a last resort) changing the objective.

6. **Linkage - The Foundation for Everything Else:** most of the organizations still fail to successfully implement those strategies and tactics. The reason, most often, is they lack linkage. Linkage is simply the tying together of all the activities of the organization...to make sure that all of the organizational resources are "rowing in the same direction."

ISSUES IN STRATEGY IMPLEMENTATION

1. **PROJECT IMPLEMENTATION**: a project basically passes through various phases which are give below before a set of task can be accomplished:
   a) Detailed planning related to different aspects of projects;
   b) Ideas generated during the process of strategic alternatives and choice consideration from the core of the future projects that may be undertaken by the organization.
   c) Preliminary project analysis pertaining to technical, financial, marketing and economic aspects.
   d) Detailed engineering, constructions etc.
   e) The final phase deals with disbanding the project.

2. **PROCEDURAL IMPLEMENTATION**: strategy implementation requires executing the strategy based on the rules, regulations, and procedures formulated by the Govt.

3. **ORGANISATIONAL STRUCTURE AND STRATEGIES**: it is a means for achieving organization mission and objectives. Thus it is an important source of strategic implementation. It refers to the method of allocating duties and responsibilities.

4. **RESOURCE ALLOCATION**: it involves the process of allocating organizational resources to various divisions, departments and strategic business units.

5. **FUNCTIONAL POLICIES**: it describes functional guidelines to operating managers to that coordination across functional units can take place.

6. **COMMUNICATION STRATEGY**: Covering the mission, objectives, market scope, technology and all the issues related to implementation to different levels in the organization is very important for its success.

7. **LEADERSHIP**: is necessary for developing effective structure and systems for the success of strategy.

8. **CHALLENGES TO CHANGE**: the process of change may cover unfreezing, moving and refreezing.

9. **PRE-IMPLEMENTATION EVALUATION STRATEGY**: before implementation it is advisable to go for a final scrutiny so as to avoid failure due to weaknesses in the analysis, if any and to ensure that the strategy decided for the organization is optimum.

Mc KINSEYS 7-S FRAMEWORK

How do you go about analyzing how well your organization is positioned to achieve its intended objective? This is a question that has been asked for many years, and there are many different answers. Some approaches look at internal factors, others look at external ones, some combine these perspectives, and others look for congruence between various aspects of the organization being studied. Ultimately, the issue comes down to which factors to study.

While some models of organizational effectiveness go in and out of fashion, one that has persisted is the McKinsey 7S framework. Developed in the early 1980s by Tom Peters and Robert Waterman, two consultants working at the McKinsey & Company consulting firm, the basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful.

The 7S model can be used in a wide variety of situations where an alignment perspective is useful, for example, to help you:

- Improve the performance of a company.
- Examine the likely effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.

The McKinsey 7S model can be applied to elements of a team or a project as well. The alignment issues apply, regardless of how you decide to define the scope of the areas you study.

The Seven Elements

The McKinsey 7S model involves seven interdependent factors which are categorized as either "hard" or "soft" elements:

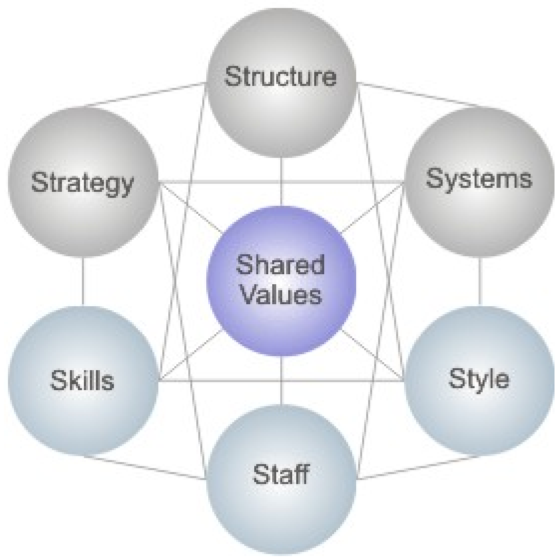
Hard Elements	Soft Elements
	Shared Values
Strategy	Skills
Structure	Style
Systems	Staff

"Hard" elements are easier to define or identify and management can directly influence them: These are strategy statements; organization charts and reporting lines; and formal processes and IT systems.

"Soft" elements, on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organization is going to be successful.

The way the model is presented in Figure 1 below depicts the interdependency of the elements and indicates how a change in one affects all the others.

Figure 1: The McKinsey 7S Model



Let's look at each of the elements specifically:

- **STRATEGY**: the plan devised to maintain and build competitive advantage over the competition.
- **STRUCTURE**: the way the organization is structured and who reports to whom.
- **SYSTEMS**: the daily activities and procedures that staff members engage in to get the job done.
- **SHARED VALUES**: called "super ordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.
- **STYLE**: the style of leadership adopted.
- **STAFF**: the employees and their general capabilities.
- **SKILLS**: the actual skills and competencies of the employees working for the company.

Placing Shared Values in the middle of the model emphasizes that these values are central to the development of all the other critical elements. The company's structure, strategy, systems, style, staff and skills all stem from why the organization was originally created, and what it stands for. The original vision of the company was formed from the values of the creators. As the values change, so do all the other elements.

HOW TO USE THE MODEL

Now you know what the model covers, how can you use it?

The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change.

Whatever the type of change – restructuring, new processes, organizational merger, new systems, change of leadership, and so on – the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

You can use the 7S model to help analyze the current situation (Point A), a proposed future situation (Point B) and to identify gaps and inconsistencies between them. It's then a question of adjusting and tuning the elements of the 7S model to ensure that your organization works effectively and well once you reach the desired end-point.

ACTIVATING STRATEGY

Activation is the process of stimulating an activity so that it can be performed successfully. Activation of strategy is required because only a small number of people are involved in the strategy formulation while its implementation involves a good number of people within the organization. It requires following activities:

1. **Institutionalization of strategy**:
    a) Strategy communication
    b) Strategy acceptance
2. **Formulation of action plans and programs**:
3. **Translating general objectives into specific objectives**
4. **Resource mobilization and allocation**

1. STRUCTURAL IMPLEMENTATION

Organisational structure is a pattern in which the various parts of the organization are interrelated or interconnected. It involves how the organization will be divided and assigned among various positions, groups, departments, divisions, etc. and the coordination necessary to accomplish organizational objectives. The organization structure is designed according to the needs of the strategy.

FUNCTIONAL STRUCTURE

A widely used structure in business organizations is functional type because of its **simplicity and low cost**. A functional structure **groups tasks and activities** by **business function**, such as production/operations, marketing, finance/accounting, research and development, and management information systems. Besides being simple and inexpensive, a functional structure also promotes specialization of labour, encourages efficiency, minimizes the need for an elaborate control system, and **allows rapid decision making**.

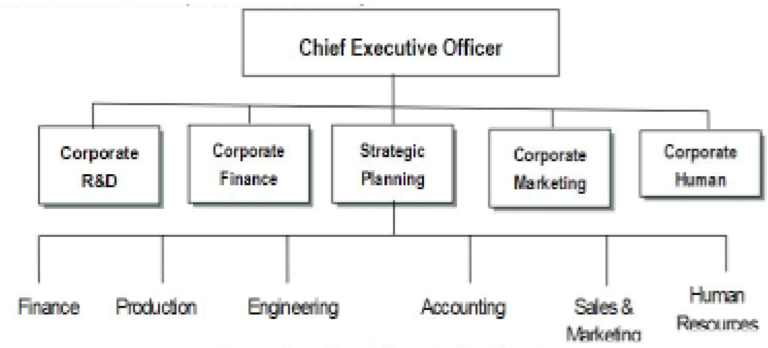
ADVANTAGES

- Promote specialization of labour,
- Encourage efficiency,
- Minimise the need for an elaborate control system,
- Allow quick decision making,
- Better co-ordination due to specialization and efficiency among the various departments.

DISADVANTAGES

- It forces accountability to the top,
- Minimizes career development opportunities,
- Low employee morale
- Line/staff conflicts

❖ Poor delegation of authority
❖ Inadequate planning for products and markets.



DIVISIONAL STRUCTURE

Also called a **"product structure"**, the divisional structure **groups each organizational function into a division**. Each division within a divisional structure contains all the necessary resources and functions within it. Divisions can be categorized from different points of view.

The divisions within the divisional structure can correspond to products or geographies of the organization. Each division contains all the necessary resources and functions within it to support that product line or geography.

This approach is useful when decision-making should be clustered at the division level to react more quickly to local conditions. The divisional structure is especially useful when a company has many regions, markets, and/or products.

Advantages of the Divisional Organization Structure

The key points in favor of the divisional structure involve placing decision making as close to the customer as possible. The advantages are:

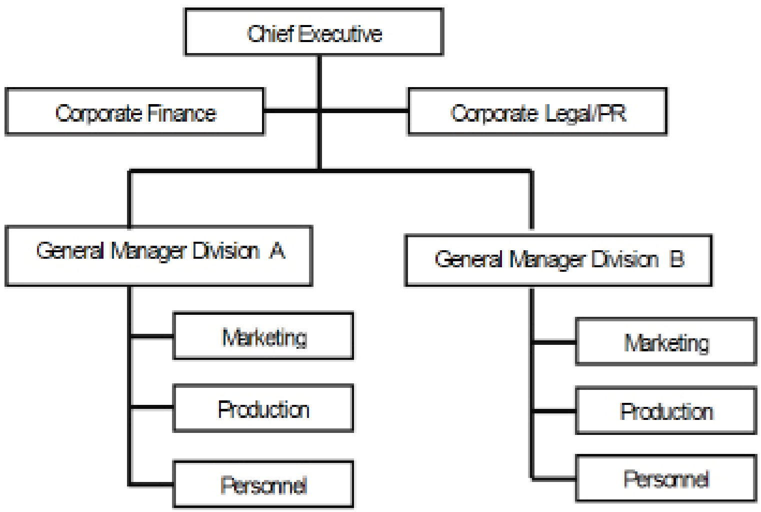
- ***Accountability***. This approach makes it much easier to assign responsibility for actions and results.
- ***Competition***. The divisional structure works well in markets where there is a great deal of competition, where local managers can quickly shift the direction of their businesses.
- ***Culture***. You can use this structure to create a culture at the divisional level that most closely meets the needs of the local market.
- ***Local decisions***. The divisional structure allows decision-making to be shifted downward in the organization, which may improve the company's ability to respond to local market conditions.
- ***Multiple offerings***. When a company has a large number of product offerings, or different markets that it services, and they are not similar, it makes more sense to adopt the divisional structure.
- ***Speed***. This approach tends to yield faster responses to local market conditions.

Disadvantages of the Divisional Organization Structure

The key points against the divisional structure involve the cost of duplicating functions and a reduced focus on the overall direction of the company. The disadvantages are:

- ***Cost***. This is a costly structure.

- ***Economies of scale*.** The company as a whole may not be able to take advantage of economies of scale, unless purchases are integrated across the entire organization.
- ***Inefficiencies***. When there are a number of functional areas spread among many divisions, no one functional area will be as efficient as would have been the case if there had instead been one central organization for each function.
- ***Rivalries***. The various divisions may have no incentive to work together, and may even work at cross-purposes, as some managers undercut the actions of other divisions in order to gain localized advantages.
- ***Skills***. All skills are compartmentalized by division, so it can be difficult to transfer skills or best practices across the organization. It is also more difficult to cross-sell products and services between the divisions.
- ***Strategic focus*.** Each division will tend to have its own strategic direction, which may differ from the strategic direction of the company as a whole.



MATRIX ORGANIZATION STRUCTURE

Matrix Organisation was introduced in USA in the early 1960's. It was used to solve management problems in the Aerospace industry.

Matrix Organisation is a combination of two or more organisation structures. For example, Functional Organisation and Project Organisation.

The organisation is divided into different functions, e.g. Purchase, Production, R & D, etc. Each function has a Functional (Departmental) Manager, e.g. Purchase Manager, Production Manager, etc.

The organisation is also divided on the basis of projects e.g. Project A, Project B, etc. Each project has a Project Manager e.g. Project A Manager, Project B Manager, etc.

The employee has to work under two authorities (bosses). The authority of the Functional Manager flows downwards while the authority of the Project Manager flows across (side wards). So, the authority flows downwards and across. Therefore, it is called "Matrix Organisation".

2. PROCEDURAL IMPLEMENTATION

1. Licensing requirements;
2. FEMA requirements;
3. Foreign Collaboration Procedures;
4. Capital Issue requirements;
5. Import and Export requirements.

3. BEHAVIOURAL IMPLEMENTATION

1. Leadership;
2. Organizational Culture;
3. Organization Development;
4. Values and Ethics;
5. Corporate Governance;
6. Corporate Social Responsibility
7. Organizational Politics

4. FUNCTIONAL IMPLEMENTATION

The implementation of strategy also requires development of functional policies which provide the direction to middle management on how to make the optimal use of allocated resources. They guide the middle level executives in framing operational plans and tactics to make strategy implementable.

1. **MARKETING STRATEGY**;
   i. Pricing: organization strategy regarding product/services prices is to accomplish the four fundamental things:
      a) Change in profitability;
      b) Change in sales level;
      c) Change in net cash flow;
      d) Maintenance of present sales, profit, or cash flow level.
   ii. Distribution: (place)
   iii. Promotion
   iv. New Product Development.
2. **FINANCE POLICY**: the major areas covered by financial policies include the following:
   i. Capital structure mix, proportion of short term debt, long term debts, preferred and common equity.
   ii. Efficiency and effectiveness of resource utilization in terms of capital investments,, fixed assets acquisitions, current assets, loans and advances, etc.
   iii. Maximizing market valuation of the firm.
   iv. Extent to which internally generated profits are reinvested within the firm.
   v. Guidelines on decisions regarding leasing versus buying of fixed assets.
   vi. Relationship with credit agencies.

3. **HR POLICY**; the personnel function effectively contributes in integrating strategies in various functional areas for accomplishing set objectives. It has the following elements:
   - **i.** Job Analysis;
   - **ii.** Staffing Plan;
   - **iii.** Payroll Budget.
4. **PRODUCTION STRATEGY**; R& D strategy has four primary components:
   - **i.** Research & Development Goals;
     - a) Product Pre-eminence;
     - b) Follower;
     - c) Adapter;
     - d) Copier
   - **ii.** Intensity of R&D;
   - **iii.** Market and Production coupling;
   - **iv.** R& D Budget
5. **R&D STRATEGY**;

5. STRATEGIC PROGRAMMING

- Strategic Programming can be defined as a **list of planned activities** or the plan for future actions.
- The programs make the strategy **action oriented.**
- In implementation any strategy is broken down into smaller programs.
- It may involve restructuring the organization, changing the company's internal culture or beginning a new research effort.
- the planning is focused on implementation of intended Strategy.
- A strategic programming is aimed at producing kind of realized strategy.

LIMITATIONS OF STRATEGIC PROGRAM

The major limitations of strategic program to an organization originate from its limited Application to certain conditions which are summarized as under :

1. **Required Conditions:** The fulfillment of required conditions by an organization is one of the Important limitations of strategic programming strategic programming is most appropriate to Those organizations which are confronted with stable simple and normal conditions
2. **Falling visibility of mechanistic organizations:** Mechanic structure is founded on formal Hierarchy taking a changed pyramid to design making it rigid complex and highly centralized
3. **Planning problems**: Strategic programming is impossible without planning in some cases Planning leads the organizations away from the main track of progress or normalcy because Managers are not aware as to where their intended strategy will them
4. **Difficulties with command and control:** There are difficulties in enforcing command and control Managers in organization develop commands which reflect their understanding of the plans are derived from the intended strategy

BUDGETS

Budget is a statement of a company's Programs in financial Terms. A budget lists the detailed cost of each program. Many companies demand a certain percentage of returns on investment before management will approve a new programme. Planning a budget is the last real check a company has on the feasibility of its selected strategy.

An ideal strategy might be found to be practical only after specific implementation programs are costed in detail.

Budgets have three purposes

1. they help to refine organizational objectives
2. allocate resources in the most effective manner and
3. promote efficient and optimal use of resources.

If there are deviations in actual from budgeted costs, then these can be corrected and certain control strategies can be implemented.

MASTER BUDGET

A master budget is a set of interconnected budgets of sales, production costs, purchases, incomes, etc. and it also includes pro forma financial statements. A budget is a plan of future financial transactions. A master budget serves as planning and control tool to the management since they can plan the business activities during the period on the basis of master budget. At the end of each period, actual results can be compared with the master budget and necessary control actions can be taken.

Components of Master Budget

Master budget has two major sections which are the operational budget and the financial budget. They have following components:

- Operational Budget;
- Financial Budget;
- Sales Budget;
- Operating Expenses Budget

ZERO-BASED BUDGETING

Zero-based budgeting is an approach to planning and decision-making which reverses the working process of traditional budgeting. In zero-based budgeting, every line item of the budget must be approved, rather than only changes. During the review process, no reference is made to the previous level of expenditure. Zero-based budgeting requires the budget request be re-evaluated thoroughly, starting from the zero-base. This process is independent of whether the total budget or specific line items are increasing or decreasing.

The term "zero-based budgeting" is sometimes used in personal finance to describe "zero-sum budgeting", the practice of budgeting every unit of income received, and then adjusting some part of the budget downward for every other part that needs to be adjusted upward.

Zero based budgeting also refers to the identification of a task or tasks and then funding resources to complete the task independent of current resourcing.

Advantages of Zero Based Budgeting:

1. Efficient allocation of resources, as it is based on needs and benefits rather than history.
2. Drives managers to find cost effective ways to improve operations.
3. Detects inflated budgets.
4. Increases staff motivation by providing greater initiative and responsibility in decision-making.
5. Increases communication and coordination within the organization.
6. Identifies and eliminates wasteful and obsolete operations.
7. Identifies opportunities for outsourcing.
8. Forces cost centers to identify their mission and their relationship to overall goals.
9. Helps in identifying areas of wasteful expenditure, and if desired, can also be used for suggesting alternative courses of action.

DISADVANTAGES

1. More time-consuming than incremental budgeting.
2. Justifying every line item can be problematic for departments with intangible outputs.
3. Requires specific training, due to increased complexity vs. incremental budgeting.
4. In a large organization, the amount of information backing up the budgeting process may be overwhelming.

INCREMENTAL BUDGETING

Incremental budgeting is budgeting based on slight changes from the preceding period's budgeted results or actual results. This is a common approach in businesses where management does not intend to spend a great deal of time formulating budgets, or where it does not perceive any great need to conduct a thorough evaluation of the business.

There are several **ADVANTAGES** to incremental budgeting, which are as follows:

1. Simplicity. The primary advantage is the simiplicity of incremental budgeting, being based on either recent financial results or a recent budget that can be readily verified.
2. Funding stability. If a program requires funding for multiple years in order to achieve a certain outcome, incremental budgeting is structured to ensure that funds will keep flowing to the program.
3. Operational stability. This approach ensures that departments are operated in a consistent and stable manner for long periods of time.

DISADVANTAGES of incremental budgeting:

1. Consideration will not be given to the justification for each activity. They will be undertaken merely because they were undertaken the previous year.
2. Different ways of achieving the objective will not be examined, and so past inefficiencies will be continued.
3. Managers know that if they fail to spend their budget, it is likely to be reduced next period. They therefore try to spend the whole budget, regardless of whether or not the expenditure is justified.

STRATEGIC CONTROL

Strategic controls are a very significant component of the implementation process, as it involves tracking, monitoring and evaluating the effectiveness of the strategies that have been implemented, as well as making any necessary adjustments and improvements when necessary.

Strategic control systems are the formal target-setting, measurement, and feedback systems that allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation, and customer responsiveness and implementing its strategy successfully.

ROLE OF STRATEGIC CONTROL:

1. Organizational Progress: strategic control determines organizational progress towards achievement of its objectives.
2. Feedback for future actions: strategic control activities are undertaken in the light of criteria set by a strategic plan but at the same time control provides inputs either for adjusting the same strategic plan or taking future strategic plan.
3. Linking Performance and Rewards.

CONTROL PROCESS: it consists of the following steps:

1. Setting Performance Standards;
2. Measuring Actual Performance;
3. Comparison of Actual Performance against Standards;
4. Analysing Variance;
5. Re-enforcing of Corrective Action.

STRATEGIC CONTROL TECHNIQUES

1. Premise Control: Every strategy is based on certain planning premises or predictions. Premise control is designed to check methodically and constantly whether the premises on which a strategy is grounded on are still valid. If you discover that an important premise is no longer valid, the strategy may have to be changed. The sooner you recognize and reject an invalid premise, the better. This is because the strategy can be adjusted to reflect the reality.
2. Implementation Control: Implementing a strategy takes place as a series of steps, activities, investments and acts that occur over a lengthy period. As a manager, you'll mobilize resources, carry out special projects and employ or reassign staff. Implementation control is the type of strategic control that must be carried out as events unfold. There are two types of implementation controls: strategic thrusts or projects, and milestone reviews. Strategic thrusts provide you with information

that helps you determine whether the overall strategy is shaping up as planned. With milestone reviews, you monitor the progress of the strategy at various intervals or milestones.

3. Strategic Surveillance: Strategic surveillance is designed to observe a wide range of events within and outside your organization that are likely to affect the track of your organization's strategy. It's based on the idea that you can uncover important yet unanticipated information by monitoring multiple information sources. Such sources include trade magazines, journals such as The Wall Street Journal, trade conferences, conversations and observations.
4. Strategic Momentum Control;
5. Strategic Leap Control;
6. Special Alert Control.

CHAPTER 5

PERFORMANCE EVALUATION

Organizational control is the process whereby an organization ensures that it is pursuing strategies and actions which will enable it to achieve its desired goals. The measurement and evaluation of performance are the vital components of control. It poses the following basic questions:

1. What was supposed to happen?
2. What has happened?
3. Why it has happened?
4. Are the premises made during strategy formulation proving to be correct?
5. Is it going to continue?
6. What are we going to do about it?

EARNING PER SHARE (EPS)

It is the portion of a company's profit allocated to each outstanding number of shares. The profitability of a firm can be measured in terms of number of equity shares. This is known as earning per share. Thus, earning per share serves as an indicator of a company's profitability. It is calculated as:

EPS = Net Profit / No. of Shares

to simplify the calculation the number of shares outstanding at the end of the period is used. An important limitation of EPS is that it ignores the capital that is required to generate the earnings (net income) in the calculation.

RETURN ON INVESTMENT (ROI)

A performance measure used to evaluate the **efficiency of an investment** or to compare the efficiency of a number of different investments. This is the most commonly used measure of **corporate performance in terms of profits**. The profitability of a firm can be analysed from the total funds employed in the firm. This means the long-term sources of funds. Thus, it is the result of dividing net income before taxes by total value of investments. It is calculated as follows:

ROI= Net operating profit/Total Investment

Return on Equity (ROE)/ Return on net worth (RONW)

A measure of a corporation's profitability reveals how much profit a company generates to the shareholders. Return on equity is calculated as:

=Net Income/ Shareholder's Equity

MARKET VALUE ADDED (MVA)

Market Value Added (MVA) measures the share market; estimate of the net present value of firm's past and expected capital investment projects.

It is the difference between the current market value of a firm and the capital contributed by investors.

Market Value is the estimated amount for which a property should be exchanged on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein each part had acted knowledgably, prudently, and without compulsion.

The higher the MVA, the better. A high MVA indicates that the company has created substantial wealth for its shareholders i.e., if MVA is positive, the firm has added value and if it is negative, the firm has destroyed value.

The amount of value added needs to be greater than the firm's investors could have achieved investing in the market portfolio, adjusted for the leverage of the firm relative to the market.

The formula for MVA is: MVA = V –K

Where:

— MVA is market value added

— V is the market value of the firm, including the value of the firm's equity and debt.

— K is the capital invested in the firm.

Thus, it is calculated as follows:

(i) Add all the capital that has been put into a company i.e. a share capital, loan capital and retained earnings.
(ii) Re-classify certain accounting expenses, such as research and development to reflect that they are actually investments in future earnings. This gives the firm’s total capital.
(iii) Using the current share price, the total value of all outstanding shares, adding to the company’s debt. This is the company’s market value. If the company’s market value is greater than all the capital invested in it, the firm has a positive MVA, meaning that management has created wealth. However, if the market of the company is less than the capital than the shareholders’ wealth is being destroyed.

ECONOMIC VALUE ADDED (EVA)

Economic Value Added is a popular method of measuring corporate and divisional performance. In corporate finance , Economic Value Added is the net earning in excess of charge (cost) for the capital employed (debt + equity) by lenders and shareholders. The organization or firm is said to have earned an economic return if it’s after tax return on capital employed (ROCE) exceeds, the cost of capital employed (COCE).

Economic Value Added measures the difference between the pre-strategy and post-strategy value of the business.

In other words, EVA is **after tax operating profit less the total annual cost of capital**. The annual cost of borrowed capital is the interest charged by the firm’s banks and bondholders.

A company’s **overall cost of capital** is the **weighted-average cost of the firm’s debt and equity capital**.

The **total amount of capital invested** by the business includes investments in buildings, machine, investments etc. In order to find out the annual cost of capital, multiply the firm's total capital by the weighted average cost of capital.

To calculate EVA compare the figure of after tax operating earnings with annual cost of capital. **If the difference is positive, the strategy is generating value for the shareholders and if it is negative the strategy is reducing shareholders value.**

It is calculated as follows:

EVA = Net Operating Profit After Tax – Cost Charges for Capital Employed

Cost charges for the capital employed is the Weighted Average Cost of Capital (WACC) which is what a company is expected to pay to finance its assets. WACC is the minimum return that a company must earn on existing asset base to satisfy its creditors, owners, and other providers of capital and capital employed represents the total cash investment that shareholders and debt holders have made in a company.

BALANCED SCORE CARD APPROACH

The balanced score card (BSC) is a **strategic planning and management system** that is used extensively in business and industry, government, and non-profit organizations worldwide to **align business activities to the vision and strategy of the organization**.

The balanced scorecard (BSC) is a strategy performance management tool - a semi-standard structured report, supported by design methods and automation tools that can be used by managers to **keep track of the execution of activities** by the staff within their control and to monitor the consequences arising from these actions.

It transforms an organization's strategic plan from an attractive but passive document into the marching orders for the organization on a daily basis. It provides a framework that not only provides performance measurements, but also helps planners to identify what should be done and measured. It also enables executives to truly execute their strategies. It provides a clear prescription as to what companies should measure in order to balance the financial perspective.

There are four components to the balanced score card:

1. **Learning and Growth Perspective** This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge based organization, people; the only repository of knowledge are the main resource. In the current situation of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode.

2. **Business Processes Perspective:** This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements. These metrics have to be carefully designed by those who know these processes most intimately; with unique missions, these are not something which can be developed by outside consultants.

3. **Customer Perspective**: Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators, if customers are not satisfied, they will eventually find other suppliers that will meet their needs.

4. **Financial Perspective**: The availability of timely and accurate financial data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database system, it is seen that more of the processing can be centralized and automated.

BENCHMARKING TO EVALUATE PERFORMANCE

Benchmarking is the continuous process of measuring products, services and practices against the competitors and those companies recognized as industry leaders. It is based on the concept that it makes no benefit to reinvent something that someone else is already using. It involves open learning how others do something better than one's own company so that one not only can intimate, but perhaps even improve on their current technique. The benchmarking process normally includes the following steps:

1. Identify the area or process to be examined.
2. Find behavioural and output measures of the area or process and obtain measurements.
3. Select an accessible set of competitors and best-in-class companies against which to benchmark.
4. Calculate the differences among the company's performance measurements and those of the best-in-class and determine why the differences exist.
5. Develop tactical programs for closing performance gaps.
6. Implement the programs and then compare the resulting new measurements with those of the best-in-class companies.

Benchmarking has been found to produce best results in companies which are already well managed. Basically, the poor performing companies tend to be overwhelmed by the discrepancy between their performance and the benchmark—and tend to view the benchmark as difficult to reach.

STRATEGIC AUDIT

Strategic audit refers to a checklist of questions, by area or issue which enables a systematic analysis of various corporate functions and activities to be made. This is a type of management audit and is useful as a diagnostic device to pin-point corporate wide problem areas and to highlight organizational strengths and weaknesses. It also helps to determine why certain areas create problems for a company and help to generate solutions to these problems. It is not an all-inclusive list, but it presents many of the critical questions needed for a detailed strategic analysis of any business organization. Some areas may be inappropriate for a particular company; but in some situations the questions may be insufficient for a complete analysis. However, each question in a particular area of the strategic audit can be broken down into an additional series of sub questions. The following are the common area in which a common strategic audit can be undertaken:

1. Evaluation of current performance
2. Review of corporate governance

3. Scan and assess the external and internal environment
4. Analysis of strategic factors (SWOT)
5. Strategic alternatives
6. Implementation of strategies
7. Evaluation and control.

CHAPTER 6

RISK MANAGEMENT

Risk management is the identification, assessment, and prioritization of risks (as *the effect of uncertainty on objectives*, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

Risks can come from uncertainty in financial markets, threats from project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause.

WHAT IS RISK?

Risk is the potential of loss (an undesirable outcome, however not necessarily so) resulting from a given action, activity and/or inaction, foreseen or unforeseen. The notion implies that a choice having an influence on the outcome sometimes exists (or existed). Potential losses themselves may also be called "risks" without any indication of cause.

The term risk has been expressed in various forms as under:

- The chance of loss;
- The probability of loss;
- Uncertainty;
- The dispersion of actual from expected result, and
- The probability of any outcome different from the one expected.

DIFFERENT MEANINGS OF RISK

Depending on the capacity and attitude towards risk, risks can be divided into the following:

1. **PURE RISKS AND SPECULATIVE RISKS**:
   Pure risk is a category of risk in which loss is the only possible outcome; there is no beneficial result. Pure risk is related to events that are beyond the risk-takers control and, therefore, a person cannot consciously take on pure risk.
   Speculative Risk is a category of risk that, when undertaken, results in an uncertain degree of gain or loss. All speculative risks are made as conscious choices and are not just a result of uncontrollable circumstances.
2. **ACCEPTABLE RISKS AND NON ACCEPTABLE RISKS**:
   While risks are unavoidable in any business, the potential loss may be so minimal that some risks are acceptable without any prevention being taken. Certain risks are major and those are known as non-acceptable risks.
3. **STATIC AND DYNAMIC RISKS**:

A situation that is not affected by a business environment and remains constant over a period of time is known as static risk. Exposure to loss from changes in the environment is known as dynamic risk.

TYPES OF RISKS

1. **SYSTEMATIC RISK**: The risk inherent to the entire market or entire market segment. Also known as "un-diversifiable risk". Interest rates, recession and wars all represent sources of systematic risk because they affect the entire market and cannot be avoided through diversification.
2. **UNSYSTEMATIC RISK**: Company or industry specific risk that is inherent in each investment. The amount of unsystematic risk can be reduced through appropriate diversification. Also known as "specific risk," "diversifiable risk" or "residual risk."
3. **MARKET PRICE RISK:** is the risk of losses in positions arising from movements in market prices. Some market risks include:
    - *Equity risk*, the risk that stock or stock indices prices and/or their implied volatility will change.
    - *Interest rate risk*, the risk that interest rates and/or their implied volatility will change.
    - *Currency risk*, the risk that foreign exchange rates and/or their implied volatility will change.
    - *Commodity risk*, the risk that commodity prices and/or their implied volatility will change.
4. **BUSINESS RISK**: The possibility that a company will have lower than anticipated profits, or that it will experience a loss rather than a profit. Business risk is influenced by numerous factors, including sales volume, per-unit price, input costs, competition, overall economic climate and government regulations. A company with a higher business risk should choose a capital structure that has a lower debt ratio to ensure that it can meet its financial obligations at all times.
5. **PURCHASING POWER RISK**: The risk that unexpected changes in consumer prices will penalize an investor's real return from holding an investment. Because investments from gold to bonds and stock are priced to include expected inflation rates, it is the unexpected changes that produce this risk. Fixed income securities, such as bonds and preferred stock, subject investors to the greatest amount of purchasing power risk since their payments are set at the time of issue and remain unchanged regardless of the inflation rate.
6. **INTEREST RATE RISK:** The chance that a security's value will change due to a change in interest rates. For example, a bond's price drops as interest rates rise. For a depository institution, also called funding risk: The risk that spread income will suffer because of a change in interest rates.
7. **FINANCIAL RISK**: The risk that the cash flow of an issuer will not be adequate to meet its financial obligations. It is also referred to as the additional risk that a firm's stockholder bears when the firm uses debt and equity.

8. **OPERATIONAL RISK**: An **operational risk** is defined as a risk incurred by an organisation's internal activities. Operational risk is the broad discipline focusing on the risks arising from the people, systems and processes through which a company operates.

9. **INDUSTRY AND SERVICES RISK**

10. POLITICAL RISK **11.** SYSTEMS RISK **12.** LEGAL RISK **13.** DISASTER RISK

THE COST OF RISK = value without risk – value with risk

1. Risk identifying costs;
2. Risk handling costs;
3. Actual losses;
4. Social costs;
5. Loss financing costs;
6. Loss control costs;
7. Residual uncertainty costs

ELEMENTS OF RISK IN BUSINESS

1. Premises;
2. Product;
3. Purchasing;
4. People;
5. Procedure;
6. Protection;
7. Processes;
8. Performance;
9. Planning;
10. Policy.

RISK MANAGEMENT- CONCEPT

Risk management is a set of strategies for analyzing potential risks and instituting policies and procedures to deal with them. It is a scientific approach to deal with pure risks by anticipating possible accidental losses and designing and implementing procedures which minimizes the occurrence of loss or the financial impact of the losses that do occur.

The major **CHARACTERISTICS** of risk management are as under:

1. It is a systematic discipline for dealing with problem of uncertainty.
2. It provides a system of making choices.
3. It is a way for better understanding of potential liability.
4. It is a guide for responding to undesirable events.

The **OBJECTIVES** of risk management are:

1. To provide a structured framework for more effective strategic planning.
2. To ensure maximizing of opportunities and minimizing of losses.
3. To widen management perspective and encourage initiative and pro-active behavior.
4. To contribute to improved organizational efficiency and effectiveness.
5. To optimize the use of resources.
6. To provide a framework for ensuring that unavoidable risks are adequately insured.

7. To provide an effective and systematic approach which enables management to focus on areas of risk in their operations.
8. To identify and prioritise potential risk events.
9. To analyse and report identified risk events.

The potential **BENEFITS** from risk management are :

1. supporting strategic and business planning;
2. supporting effective use of resources;
3. promoting continuous improvement;
4. fewer shocks and unwelcome surprises;
5. quick grasp of new opportunities;
6. reassuring stakeholders;
7. helping focus internal audit programme;

RISK MANAGEMENT PROCESS

1. Determining Objectives;
2. Identifying Risks;
3. Risk Evaluation;
4. Development of Policy;
5. Development of Strategy;
6. Implementation;
7. Review.

APPROACHES TO RISK MANAGEMENT

1. Risk Avoidance;
2. Loss Control;
3. Combination;
4. Separation;
5. Risk Transfer;
6. Risk Retention;
7. Risk Sharing.

RESPONSIBILITY OF RISK MANAGEMENT

1. Board of Directors:

2. Chief Executive Officer:

3. Risk Officer:

4. Internal Auditor:

5. Other Personnel.

MEASUREMENT OF RISK

1. Range:

2. Standard deviation:

3. Sensitivity analysis:

4. Break Even Analysis:

5. Simulation Analysis:

6. Decision Tree Analysis:

7. Value at Risk Analysis:

8. Cash Flow at Risk Analysis:

CHAPTER 7

MANAGEMENT INFORMATION SYSTEM

A management information system (MIS) provides information that organizations require to manage themselves efficiently and effectively. A management information system gives the business managers the information that they need to make decisions.

Management information systems provide a variety of information products to managers. Periodic Scheduled Reports are a traditional form of providing information to managers via a specified format designed to provide managers with information on a regular basis. Exception Reports are produced only when exceptional conditions occur. Exception reporting reduces information overload instead of overwhelming decision makers with periodic detailed reports of business activity. Demand Reports and Responses are available when the managers require immediate access to vital information.

MIS provides information to all the levels of management for the following **PURPOSE**:

1. To define the objectives of the organization;
2. To prepare future plans for short and long term basis;
3. To allocate different types of resources to different functional areas;
4. To allow management by exception'

EVOLUTION OF MIS

1. Management Accounting:

2. Management Science/Operational Research:

3. Management and Organisation Theory:

4. Computer Science:

CHARACTERISTICS OF MIS

1. Comprehensiveness:
2. Coordinated:
3. Sub Systems:
4. Integration:
5. Transformation of Data into Information:
6. Enhance Productivity:
7. Conforms with Manager's Styles and Characteristics:
8. Relevant Information:

9. Uses Established Quality Criteria:
10. Feedback:
11. Flexibility:
12. Modularity:
13. Selective Sharing of Data:
14. Computerized:

APPROACHES OF MIS DEVELOPMENT

1. **TOP DOWN APPROACH:**

2. **BOTTOM UP APPROACH:**

3. **INTEGRATED APPROACH:**

PRE REQUISITES OF AN EFFECTIVE MIS

1. **Qualified System and Management Personnel:**

2. **Database:**

3. **Support of Top Management:**

4. **Control and Maintenance of MIS:**

5. **Evaluation of MIS:**

CONSTRAINTS IN OPERATING A MIS

1. Non availability of experts, who can diagnose fully the objectives of the organization and give a desired direction needed for operating information system.
2. Difficulty faced by experts, in selecting the sub systems of MIS, to be designed and operated upon first.
3. Source of availability of experts for running MIS effectively is not always known to management.
4. Non availability of cooperation from staff.
5. Turnover of experts is quite high.
6. Its utility is not perceptible by many users.

LIMITATIONS OF MIS

1. MIS cannot replace managerial judgments in decision making. It is merely an effective tool for the managers in decision making and problem solving.
2. The quality of output of MIS is directly proportional to the quality of input and processes.
3. MIS cannot provide tailor made information packages. It is required to analyse the available information before decision making.
4. In a fast changing and complex environment, MIS may not have enough flexibility to update itself quickly.
5. MIS takes only quantitative factors into account.
6. MIS is less useful for making non programmed decisions.
7. MIS is less effective in organisations where information is not being shared with others.
8. MIS is less effective due to frequent changes in top management,organisational structure and operational staff.

A **Decision Support System** (**DSS**) is a computer-based information system that supports business or organizational decision-making activities. DSSs serve the management, operations, and planning levels of an organization (usually mid and higher management) and help to make decisions, which may be rapidly changing and not easily specified in advance (Unstructured and Semi-Structured decision problems).

CHARACTERISTICS:

1. DSS tends to be aimed at the less well structured, underspecified problem that upper level managers typically face;
2. DSS attempts to combine the use of models or analytic techniques with traditional data access and retrieval functions;
3. DSS specifically focuses on features which make them easy to use by non-computer people in an interactive mode; and
4. DSS emphasizes flexibility and adaptability to accommodate changes in the environment and the decision making approach of the user.

	MIS	DSS
1.	The main focus is on the structured tasks and the routine decisions.	Focus is mainly on the semi / un-structured tasks, which demand the managerial judgment.
2.	Identifies the information requirement.	Develops certain tools for using in the decision process.
3.	Data storage is of great importance	The main emphasis is on the data – manipulation.
4.	Delivers system depending on the frozen requirements.	Current data can be used in the Decision Support System.
5.	Only the in – direct access to the data by the managers is provided.	Managers enjoy direct access to the data.
6.	Very much dependent on the computer expert.	Depends on the managerial judgment.
7.	Access to the data possibly requiring a 'wait' for the manager's turn.	Waiting is not at all required.
8.	MIS manager may not completely understand the nature of the decision.	Manager possesses the knowledge about the nature of the decision and the decision making environment.
9.	Main stress is on the efficiency.	Main emphasis is laid on the effectiveness.

EXECUTIVE INFORMATION SYSTEM (EIS)

An **executive information system** (**EIS**) is a type of management information system that facilitates and supports senior executive information and decision-making needs. It provides easy access to internal and external information relevant to organizational goals. It is commonly considered a specialized form of decision support system (DSS).

Advantages of EIS

- Easy for upper-level executives to use, extensive computer experience is not required in operations
- Provides timely delivery of company summary information
- Information that is provided is better understood
- EIS provides timely delivery of information. Management can make decisions promptly.
- Improves tracking information
- Offers efficiency to decision makers

Disadvantages of EIS

- System dependent
- Limited functionality, by design
- Information overload for some managers
- Benefits hard to quantify
- High implementation costs
- System may become slow, large, and hard to manage
- Need good internal processes for data management
- May lead to less reliable and less secure data

ENTERPRISE RESOURCE PLANNING (ERP)

Enterprise resource planning (ERP) is business process management software that allows an organization to use a system of integrated applications to manage the business and automate back office functions. ERP software integrates all facets of an operation, including product planning, development, manufacturing processes, sales and marketing.

CHARACTERISTICS:

1. Flexible
2. Modular
3. Support variety of organizational functions, activities or services
4. Better analysis,& planning capabilities
5. ERP bridges the information gap across the organization.
6. Best Business practices

BENEFITS

- ERP can greatly improve quality and efficiency of a business. By keeping a company's internal business process running smoothly, ERP can lead to better outputs that benefit the company, such as customer service and manufacturing.
- ERP supports upper level management, providing critical decision making information. This decision support lets upper management make managerial choices that enhance the business.
- ERP creates a more agile company that better adapts to change. ERP makes a company more flexible and less rigidly structured so organization components operate more cohesively, enhancing the business—internally and externally.
- ERP can improve data security. A common control system, such as the kind offered by ERP systems, allows organizations the ability to more easily ensure key company data is not compromised.
- ERP provides increased opportunities for collaboration. Data takes many forms in the modern enterprise. Documents, files, forms, audio and video, emails. Often, each data medium has its own mechanism for allowing collaboration.

CHAPTER 8

INTERNAL CONTROL

- Internal control is an important and effective tool of management to achieve organizational objectives effectively.
- It is the whole system of controls, financial and otherwise established by the management in the conduct of business including check, internal audit and other forms of control.
- The management aims at optimum use of resources through internal control.

FUNCTIONS OF INTERNAL CONTROL

The function of internal control is to enable the adopted plan to operate efficiently, profitably and economically so that:

1. Duties and responsibilities for operations to individual employees are assigned to achieve the established policy of the company.
2. Feedback to the management of the results periodically, particularly in regard to abnormal or unusual situations both favourable and un-favourable and deviation from the standards.
3. To safeguard the interest of the company against fraud, waste and loss of efficiency or carelessness, fire, accident, theft, etc.
4. To promote efficiency of personnel and operations.
5. To lay and circumscribe the definite units for performance of duties.
6. To establish and circumscribe the definite limits within which the internal routines of the business must be conducted. The individual who violates the limits will have to explain and justify his action.

ELEMENTS OF INTERNAL CONTROL

1. **SEGREGATION OF DUTIES**: the division of an operation into a series of sub-operations undertaken by different people allows for internal checks to take place.
2. **ORGANIZATIONAL STRUCTURE**: enterprises should have a plan of their organization, defining and allocating responsibilities and identifying lines of reporting for all aspects of enterprise's operations, including the controls.
3. **OBJECTIVES AND POLICY STATEMENTS**: the functional segments of the company should comply with the policies, plans, procedures, external laws and regulations and the work should be performed in a coordinated manner.
4. **AUTHORIZATION AND APPROVAL**: there should be procedures to ensure that personnel have capabilities commensurate with their responsibilities.
5. **MANAGEMENT**: is responsible for establishing, monitoring, and reviewing systems of internal control.
6. **RECORDS AND REPORTS**:
7. **Protection of assets**.

CHARACTERSITICS OF INTERNAL CONTROL

1. There should be proper delegation of authority, responsibilities and duties within the organization and any areas of conflict, misunderstanding and overlapping of duties should not be there.
2. Appropriate monitoring system should exist for an analysis of performance and taking immediate corrective measures.
3. In built facilities should exist for checking, cross checking and reconciliation of data by experienced employees.
4. It should not be expensive but should be commensurate with the benefits to be derived.
5. The control system should be flexible and adjustable to the changing situational needs and should never be too tight to take away the initiative of the operational executives.
6. There should exist a system of authorization and record procedures to provide reasonable accounting control over assets, liabilities, revenues and expenditure.
7. Selection procedures are carefully screened to ensure that only qualified people are employed.
8. Control should be a continuous process and control measures should not be static but dynamic.
9. Periodic evaluation of the control system should be done to keep controls vital and effective.

OBJECTIVES AND SCOPE OF INTERNAL CONTROL

1. To ensure the orderly and efficient conduct of business.
2. To ensure that transactions are executed in accordance with management's general or specific authorization.
3. To ensure that all transactions are promptly recorded with the correct amount, in the appropriate accounts and in the accounting period in which executed, so as to permit preparations of financial information within a framework of recognized accounting policies and to maintain accountability for assets.
4. To ensure that access to assets is permitted only in accordance with management's authorization.
5. To ensure accountability for assets.
6. To ensure that the policies are adhered to.
7. To ensure a confidence of reliability to the users of the information.
8. To ensure that things take appropriate shape and timely actions are taken through feedback information.
9. To prevent or detect errors and frauds.

LIMITATIONS OF INTERNAL CONTROL

1. Management's usual desire is that a control should be cost effective.
2. Most of the controls tend to be directed at anticipated types of transactions and not at unusual transactions.
3. The potential for human error due to carelessness, distractions, mistake of judgments or the misunderstanding of instructions cannot be ruled out.
4. The possibility of circumvention of controls through collusion with parties outside or inside the entity may be present.
5. Possibility of abusing the responsibility may exist.
6. Possibility of procedures becoming inadequate, which may lead to deterioration of compliance process.

TECHNIQUES OF INTERNAL CONTROL

1. **INTERNAL CHECK**:
   - It refers to allocation of duties in such a manner that the work of one person is checked by another while that other is performing his own duties in a normal way.
   - Internal check is the organization of duties of staff in a scientific way so that no one is responsible for all phases of the transaction and the work of one employee is so distributed that the discrepancies are revealed in the process of performance of duties of that employee.
   - Duties are divided and subdivided in such a manner that discrepancies flow out from the system itself.
2. **INTERNAL AUDIT**:
   - Internal auditing though part of an internal control is a function in itself as administration, production, personnel, marketing, etc.
   - Whereas internal check devises the form and flow of operations of an entity so that automatic checks are carried out as the transactions occur.
   - Internal audit is a critical appraisal of functioning of various operations of an enterprise including the system of internal check.
   - The scope and objectives of an internal audit are not uniform everywhere. They vary widely and are dependent upon the responsibilities assigned to it by management, the size and structure of the enterprise and the skills and experience of the internal auditors.
3. **FlOW CHARTS**:
   - It may be defined as a graphic representation of the flow of operations and documentations in their correct sequence from the initiation of transaction to its final entry in the books.
   - The utility of the flow chart lies in its capacity of depicting not only the various phases of a system in a simple manner but also in showing their relationship and their relative importance.
   - A flow chart drawn up properly would provide clear visual picture of the activities of a section or department indicating the flow of documents and activities.
4. **INTERNAL CONTROL QUESTIONNAIRES**:
   - An internal control questionnaire is designed to review the system of internal control in force and to expose any weaknesses in that system.
   - As such the internal control is usually reviewed by means of a questionnaire which is substantiated where necessary, by memorandum and flowcharts.
   - Internal control questionnaires are a set of questions framed in an organized manner, about each functional area of internal control and detection of its weaknesses, if any.
5. **INTER-FIRM AND INTRA-FIRM COMPARISONS**:
   - Inter-firm comparison is a technique of comparing the performances, efficiencies, costs and profits of various concerns in an industry for assessing its own performance and ascertaining the reasons for any difference in performances /efficiencies etc.
   - Inter firm comparison has been used on a large scale with the objective of making choice of investment by potential investors or to assess the stage of performance of a particular organization vis-a-vis that of others.
6. **RATIO AND TREND ANALYSIS:** In order to assess the reliability and validity of data under examination, a number of techniques such as ratio and trend analysis are used by auditor.

- **Ratio analysis** is an effective tool for establishing a useful relationship between the related but scattered data into meaningful and orderly patterns. By critical analysis of the changes in the ratios and the trends so perceived, the auditor can locate variations in the normal pattern of transactions.
- **Trend Analysis**: The auditor can analyze and draw conclusions by determining and studying the trends of the data shown on the statements. The trend method of analysis involves the **computation of the percentage relationship** that each statement items bears to the same time in the base year which may be the earliest year involved in the comparison, the last year, or any intervening year.

CONCEPT AND MEANING OF INTERNAL AUDIT

The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. To this end, the internal auditor furnishes them with analyses, appraisal, recommendations, counsel and information concerning the activities reviewed.

The ingredients of Internal Audit can broadly be classified as:

1. An independent appraisal function;
2. Established within the organization;
3. To examine and evaluate the activities, as a service to the management;
4. Objective is to assist the members for effective discharge of their responsibilities;
5. The auditor furnishes them with analyses, appraisals, suggestions etc.

SCOPE AND OBJECTIVES OF INTERNAL AUDIT

The scope and objectives of internal audit are not uniform everywhere. They vary widely and are dependent upon the responsibilities assigned to it by management the size and structure of the enterprise, and the skills and experience of the internal auditors.

Broadly, the scope and objective of internal audit is to assist all members of the management in the effective discharge of their responsibilities by the appraisal, review and evaluation of all operations, whether financial or otherwise.

The following are the aspects of internal auditing on achieving effective and efficient management and functioning of business:

1. Review, appraisal and evaluation of the soundness, adequacy and application of financial, accounting and other operating controls.
2. Ascertaining the achievement of management objectives and compliance with established plans, policies and procedures.
3. Ensuring proper safeguards for assets; their utilization and accounting thereof.
4. Detection and prevention of fraud and error.

FUNCTIONS AND RESPONSIBILITIES OF INTERNAL AUDITOR

1. **REVIEWING AND APPRAISING OPERATING CONTROLS:** The internal auditor should determine whether the internal control system is in accordance with the organizational structure. At the outset the controls should be inbuilt in operating functions, if they are to be cost effective.
2. **REVIEW OF COMPLIANCES WITH POLICIES, PLANS AND PROCEDURES:** The internal auditor should examine whether the systems are adequate and effective and whether the activities audited are complying with appropriate requirements. He should examine whether the management formulates the major accounting policies after due regards to their effect on the financial statements, both present and future.
3. **REVIEW OF CUSTODIANSHIP AND SAFEGUARD ASSETS**
4. **ECONOMICAL AND EFFICIENT USE OF RESOURCES**: He should check whether proper operating standards and norms have been established for measuring economical and efficient use of resources.
5. **ACCOMPLISHMENT OF ESTABLISHED OBJECTIVES AND GOALS:** The internal auditor should review operations and programs to ascertain whether the results are consistent with established objectives and goals, whether the goals or program themselves need to be revised in view of the changed circumstances, and whether the operations or programs are being carried out as planned and report to the management accordingly.
6. **DETECTION OF FRAUDS:** The detection and prevention of frauds is one of the main objectives of internal audit. He is also responsible for installing control system to prevent or at least deter persons from manipulating or indulging in theft.
7. **REVIEWING OF RELEVANCE AND RELIABILITY OF INFORMATION:** The internal auditor should review the management information systems to evaluate the reliability and integrity of financial and operating information given to management and to external agencies.
8. **COMPLIANCE WITH STATUTORY RULES AND REGULATIONS**
9. **RELATIONSHIP WITH EXTERNAL AUDITOR:** The internal auditor should develop and maintain a constructive relationship with external auditor. Thus, both auditors should co-ordinate their work for the betterment of the organization.

REQUISITES FOR EFFECTIVE INTERNAL AUDIT

1. Internal audit must draw managerial and operational aspects in addition to financial aspects.
2. To be effective the internal auditor must have full support and confidence of top management.
3. Internal audit should have a well defined audit programme so that audit can be carried out systematically.
4. The auditor should try to adhere to his schedule so that he can submit his report on time and the management can take corrective actions in tim.
5. Honest intention of the organisation and professional approach of the auditor is required.
6. The internal auditor should also follow up the matters to ensure that corrective action is taken by the management in respect of suggestions made by him.
7. Audit should preferably commence from the beginning of the year and report should be submitted as per the schedule drawn by the internal auditor.
8. Organizational climate to be friendly for internal auditor to act without fear, favor or prejudice.

INTERNAL AUDIT AND MANAGEMENT

Internal auditing has become an important management tool for the following reasons:

1. Internal auditing is a specialized service to look into the standards and efficiency of business operations.

2. Internal auditing is necessary to ensure compliance of the Companies (Auditor's Report) Order.
3. Internal auditing acts as a management tool by pointing out the inefficiencies in operations and the drawbacks of the functional heads or departments.
4. It can evaluate various problems independently in ter.ms of overall management control and suggest improvements, since it is completely detached from day to day operational functional functioning of the business.
5. It is a real support to management in discharging their ever increasing responsibility towards the shareholders and the public in general in producing reliable statements in respect of the working 6fine company.

DIFFERENCE BETWEEN INTERNAL AUDIT AND INTERNAL CHECK

INTERNAL AUDIT	INTERNAL AUDIT
1. It is an arrangement of duties allocated in such a way that the work of one person is automatically checked by another.	1. It is an independent review of operations and records.
2. There is no special staff to carry out the system of internal check. It represents the arrangements of duties of the staff in a particular manner.	2. For carrying internal audit, normally separate staff is engaged specially for the purpose.
3. The objective of internal check is to reduce the errors and frauds.	3. The objective of internal audit is to discover the errors and frauds, if any.
4. It represents a process under which the work goes on uninterruptedly and checking too is more or less automatic.	4. The internal auditor has to see as to how far the work is correct and done according to the specified rules.

DIFFERENCF BETWEEN INTERNAL AUDIT AND STATUTORY AUDIT

1. **Method of appointment and interests served**:
   Internal auditors are appointed by the management and are part of the managerial function.
   Statutory auditors, on the other hand are appointed by the shareholders under the statute.
2. **Independence**:
   The external auditor has considerably more independence than the internal auditor as he is appointed by the shareholders and thus not dependent on management for directions.
3. **Principal areas of interest**:
   The internal auditor will devote a considerable portion of his time in reviewing the accounting and operating procedures of the company in order to determine whether established policies are being followed and whether other improved procedures could be devised.
   The external auditor is concerned with the truth and fairness of the reports presented to the shareholders and shall therefore devote the major portion of his time on the verification of the accounting for assets, liabilities, owners' equity, revenues and expenses.
4. **Scope:**
   The internal audit is in compliance with the procedures laid down by management and they may differ from one undertaking to another depending upon their needs as also the perception of the management.
   But the scope of activities of the statutory auditors is determined by statute.
5. **Objectives:**
   The internal auditors are the representative of the management.

External auditors are engaged to give an unbiased and impartial report on the financial position of the company and validity of the transactions and with-the fairness of accounts.

6. **Qualifications**:
   The qualification required for appointment of the internal auditor is determined by the management and it is not obligatory for him to possess qualifications prescribed under companies Act,
   But a statutory auditor must possess such qualifications.
7. **Reporting**:
   The internal auditor submits his report to the management.
   Report of the statutory auditor is placed before shareholders of the company.