For CA, CS & OTHER PROFESSIONAL COURSES

2014

CA-IPC STRATEGIC MANAGEMENT

TAXATION & LAW CODE PRESENT'S

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PREFACE TO MY FIRST EDITION

It gives me immense pleasure, in helping the student community in particular by writing some notes in a simple, lucid manner.

Since, the book assumes no previous knowledge of the subject on the part of, the Reader, its aims complete clarity for the beginner and simplicity which makes the text self-explanatory,

I express my sincere gratitude to, all those who have stood by me, in this noble task.

I, take this opportunity, in thanking my parents, my friends, readers, my well-wishers, and yes God for their blessings and support,

I feel confident that the notes will meet a real need. If it is widely read and wisely used, I shall feel amply rewarded.

I shall gratefully acknowledge any suggestions to further increase the utility of the book, and readily incorporate them for the betterment of my next edition of notes

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If your vision is to achieve 45 out 50 marks, then your mission should be to refer to this book only.

-P.S RATHORE

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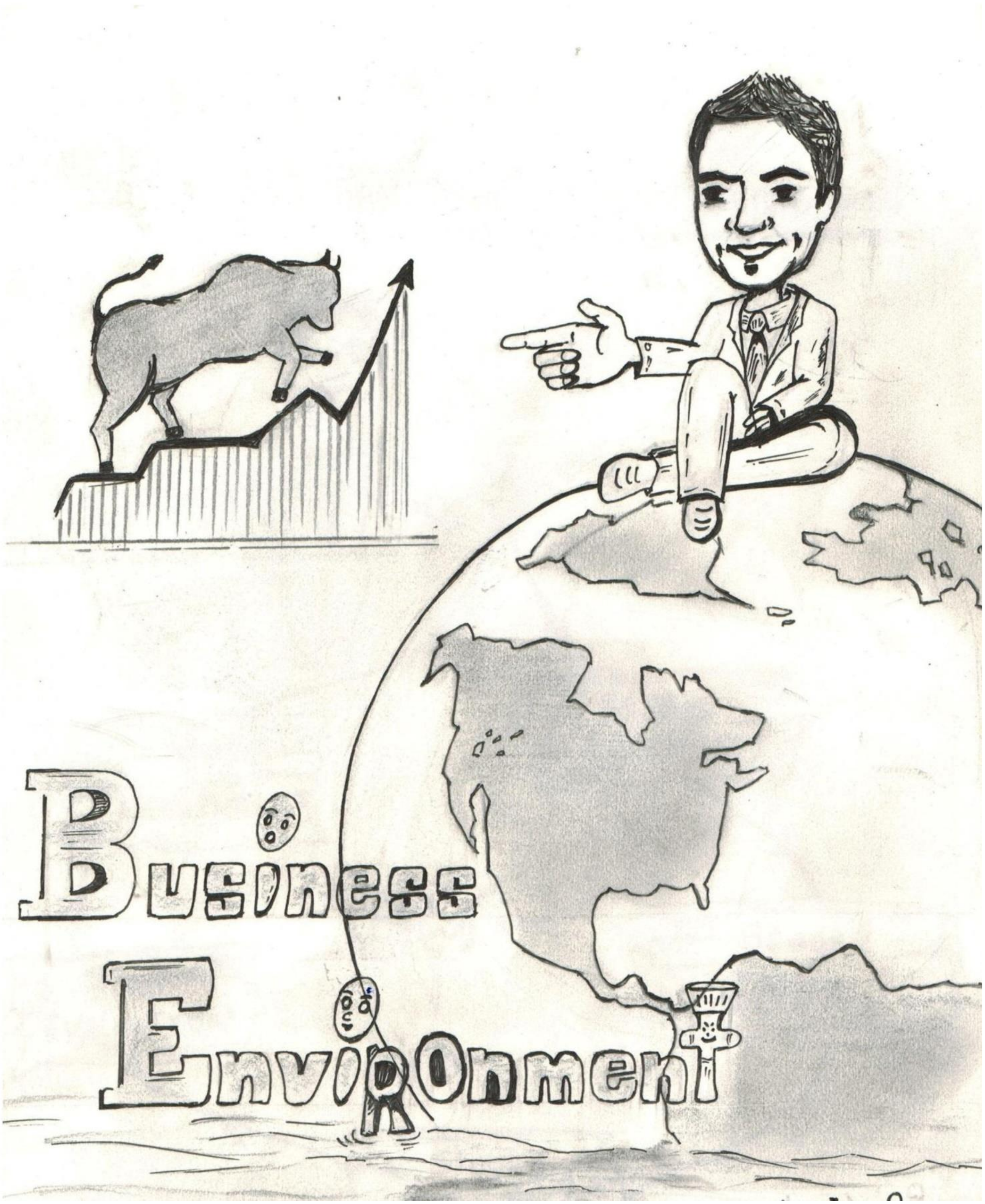
BUSINESS ENVIRONMENT

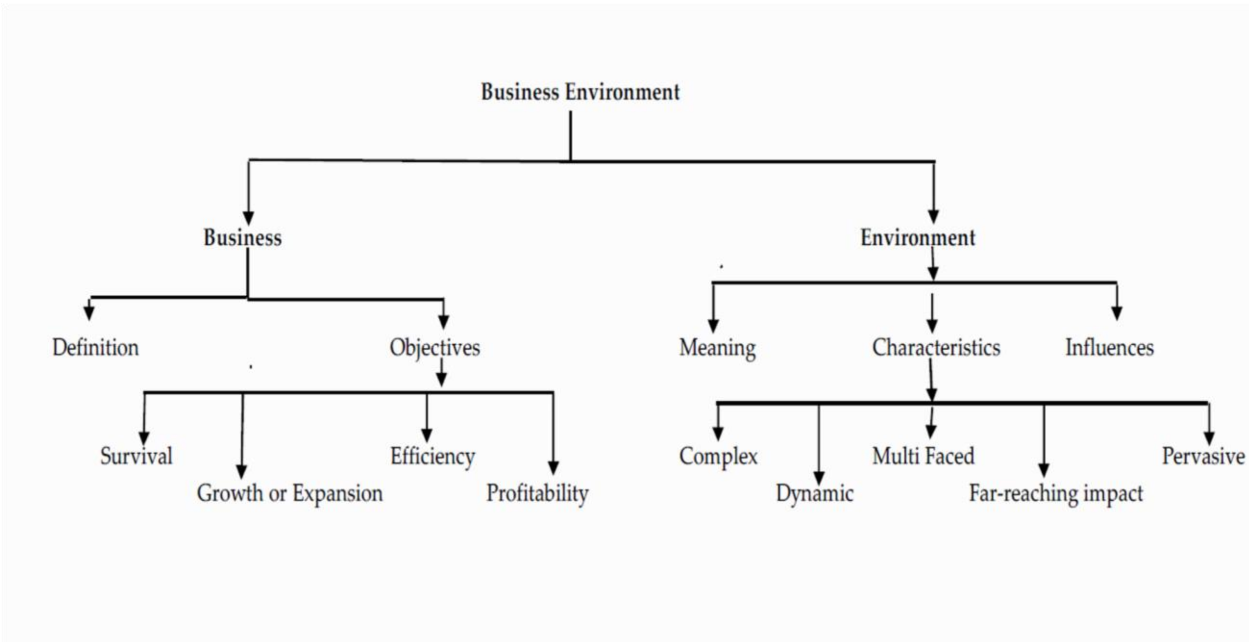


Ques 1. Define Business? What are the objective of business?

Ans. Business means the occupation or profession which is done consistently to survive. It involves all the activities recruitment, storing, procuring, distribution Etc.

Objectives of business:

- ✓ Survival
- ✓ Stability
- ✓ Expansion
- ✓ Combination
- ✓ Efficiency
- ✓ Probability



- ➢ **Survival:**
  - ✓ Basic, implicit objective of most organizations.
  - ✓ Survival of the fittest. Business and other enterprises are interested in more than mere survival.
- ➢ **Stability:**
  - ✓ It is a strategy of least resistance in a hostile external environment.
  - ✓ Minimizes managerial tensions and demands less dynamism from managers.

- ➢ **Growth:**
  - ✓ Promising and popular objective.
  - ✓ May take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

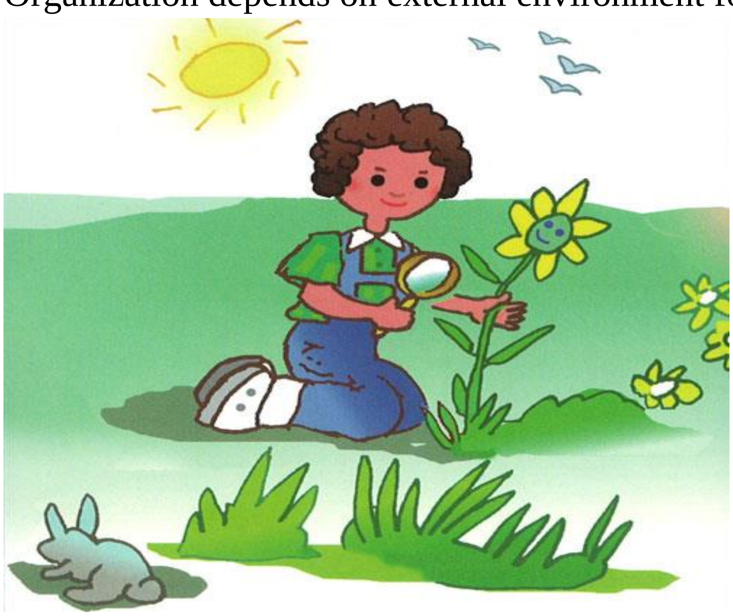
- **Efficiency**:
  - ✓ Very useful operational objective.
  - ✓ Efficiency is an economic version of the technical objective of productivity-designing and achieving suitable input output ratios of funds, resources, facilities and efforts.
- **Profitability**:
  - ✓ Sole motive.
  - ✓ All other objectives are facilitative objectives and are meant to be subservient to the profit motive
  - ✓ Private Organization lives for profit.
  - ✓ Reward for taking Risk

Ques 2. What is meaning of Environment? What contribute to that?

Ans. **Environment means surrounding**

The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government.

- ✓ Environment is **sum of** several **external** and **internal** surroundings.
- ✓ Business is a part of broader environment.
- ✓ No one can live in isolated vacuum; same is the case with business.
- ✓ **Passive response to environment results in fade away of business.**
- ✓ Successful business identifies, appraise & respond to various opportunities and threats in its environment.
- ✓ Organization depends on external environment for its input and output.



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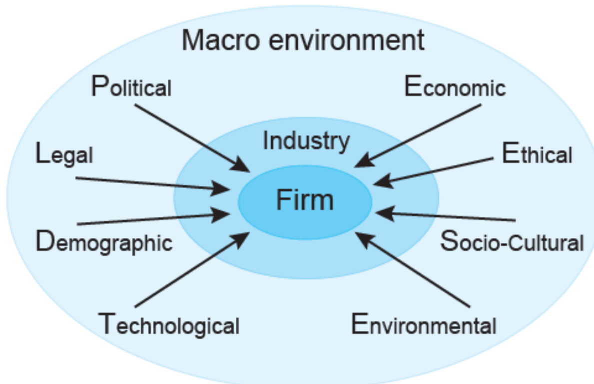
Ques 3. What do you mean by Business Environment? What are the types?

Ans. Business Environment is surrounding business.

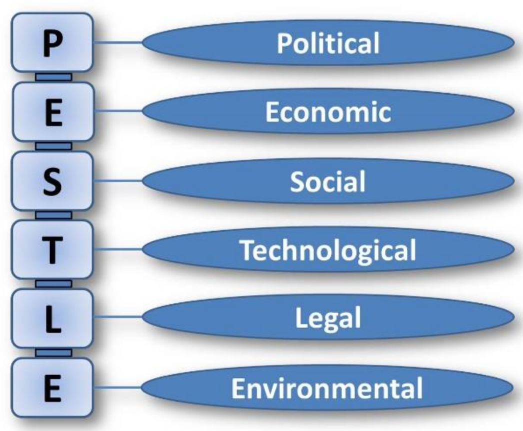
There are 2 types of business environment.

- **Macro or External (EPSOFLG Technology)**
  - ✓ Economic environment
  - ✓ Population Demographic
  - ✓ Social value
  - ✓ Other legal and political changes
  - ✓ Foreign Changes
  - ✓ Life style
  - ✓ Government Legislation
  - ✓ Technology Changes



By some of the author macro environment can be following six **(PESTLE)**.

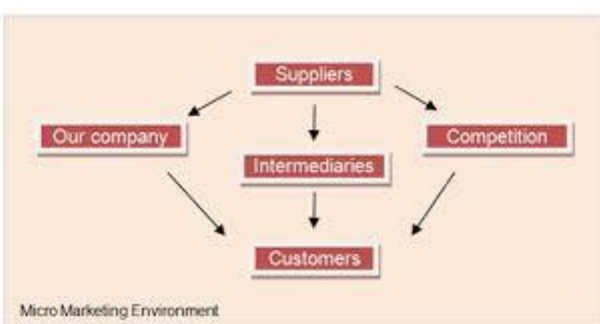
- ✓ Political
- ✓ Economic
- ✓ Social Culture
- ✓ Technology
- ✓ Legal
- ✓ Environmental



PESTLE

PESTLE is used describe a framework for analysis of Macro environmental factors, it is an increasingly used and recognized term replacing the traditional Framework for monitoring environment known as PEST analysis.

- **Micro and internal factors (COMICS)**
  - ✓ Customer
  - ✓ Organization
  - ✓ Market
  - ✓ Intermediaries
  - ✓ Competitors
  - ✓ Suppliers



Macro Environment:-

Economic: - The general economic conditions of the country, conditions in the resource market determine the demand, supply, cost, quality, availability and reliability of supplies

Demographic: - the various criteria like the age, sex, ethnic mix etc. of the population determines the demand and the supply in the market

Socio-cultural-The diversity in the the culture, traditions, socio norms, family values, role of the women in the development of the society determines the growth of trade

Political –legal: - The stability of the government, the law structure of the economy is very essential for any trade to flourish

Technological: - The various technological advancement, research and development in the various fields determine the growth of the nation which is directly proportional to the growth of market both nationally and internationally

Micro environment:-

Consumer/Customer: - The consumer play an important role , as there will be n market without consumers , they are the one who generate demand

Organization:-Without organization, nothing is organized and there will be imbalance in the society

Market: - In any environment, market is necessary for the customer, suppliers and the competitors to come together.

Intermediaries:-The intermediaries are necessary to bridge in the gap between the different nodes of the market viz. the supplier, consumer.

Competitors:-Competitors are important as they competition will help to deliver the best product with maximum customer satisfaction at minimum cost

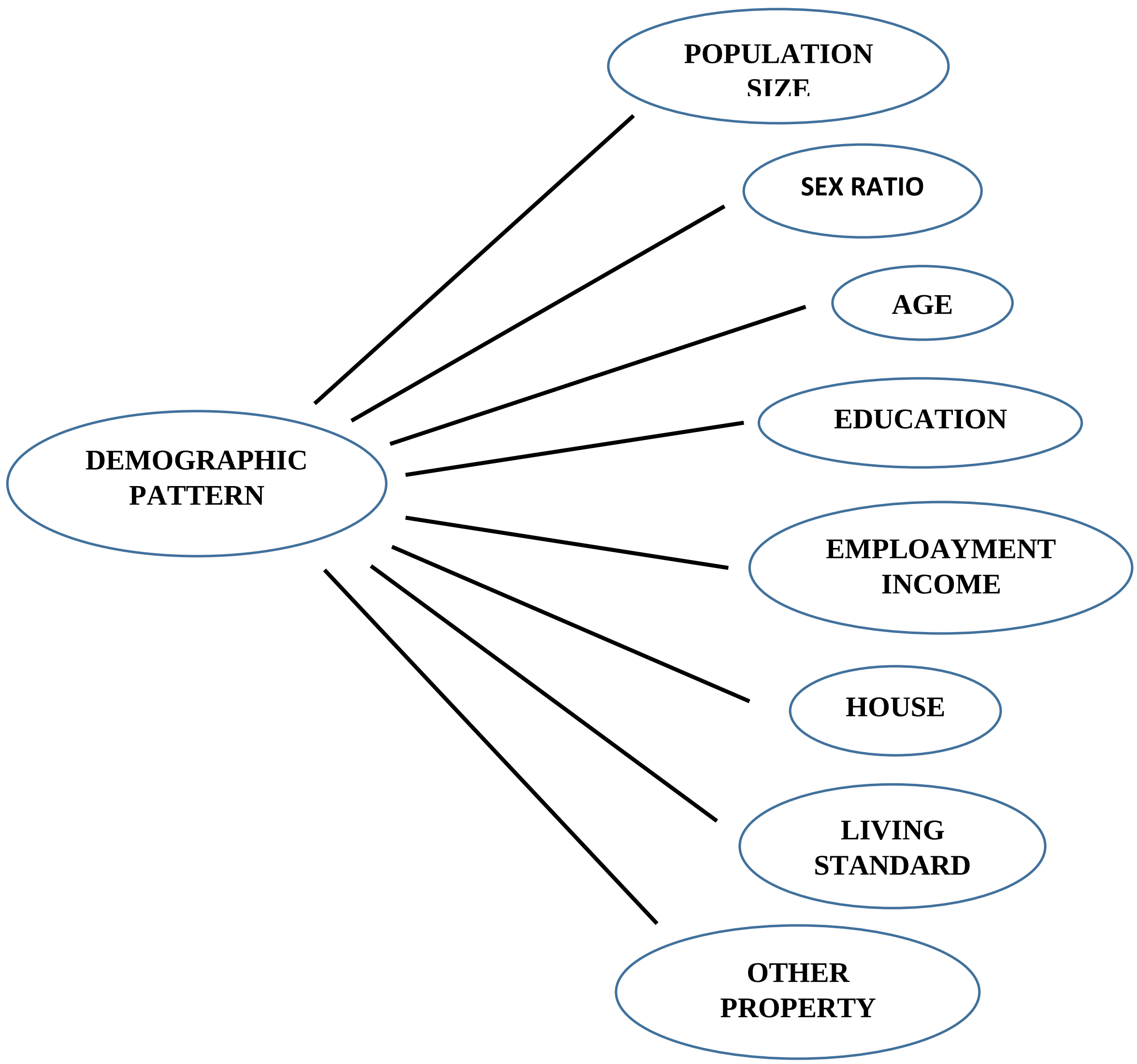
Supplier:-For the demand created by the customer, there has to be appropriate supply, else the market will collapse.

Ques 4. Explain Demographic pattern?

Ans. Demographic refers to characteristics of population of any village, area, city, state, country.

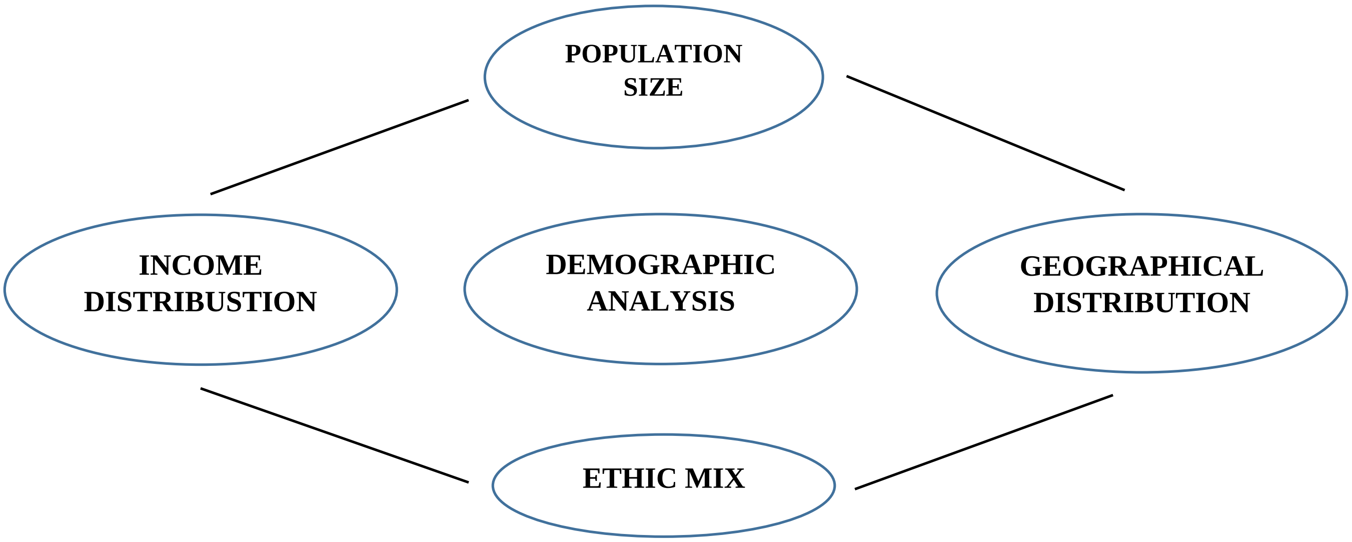
Characteristics of population shall be in terms of study, population, size, age group, sex ratio, education, employment, house ownership, other life style. These data are used to understand the trend and pattern of consumer behavior. India has the advantage of demographic population. Multinational companies are included towards the large and young population. India has 16% of world population. The organization has the following:-

- What demographics trends will affect the market size of the industry?
- What demographics trends and represents opportunity and threat?



Ques 5. What are the factors influencing demographic pattern? (POST GRADUATE ECONOMIC INCOME)

Ans. The factors influencing demographic pattern:-



- **Population Size: -** The industry must know the size of population needed for industry growth. The change in population size will also change the fate of the market .There are 2 factors which influence them and they are
  - ✓ Family size
  - ✓ Change in birth rate and death rate
- **Geographic distribution:-**
  - ✓ Location of the company
  - ✓ Relocation of business
  - ✓ Use of technology or internet

We study the impact of the change of population from one to another.

- **Ethics Mix: -** The following issues are looked at
  - A) How the product and design are changed? ` What is the impact on the delivery and quality expectation?
  - B) Should the company produce new , or existing can be modified

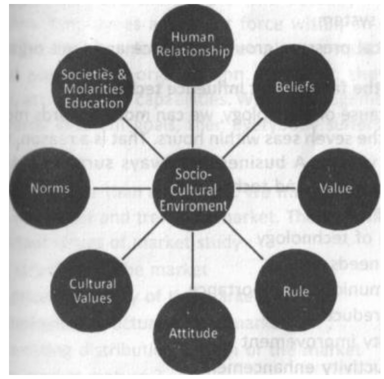
How can the company take advantage of change?

- **Income distribution:-**Change in income distribution is more important because it changes the purchasing power of an individual, Income influences the spending and saving patterns of the individual, the forecasting techniques can help to harness opportunity and challenge threat

Ques 6. What are the factors that influence social value?

Ans. It refers to socio-culture environment. The factor that influence social value are

- ✓ Relationship
- ✓ Belief
- ✓ Value
- ✓ Rule
- ✓ Attitude
- ✓ Cultural value
- ✓ Norms
- ✓ Societies and Moralities Education



Ques 7. What are the factors that influence government intervention?

Ans (a) Business is highly guided and controlled by government policies.

(b) Organizations prefer to operate in a country where there is a sound legal system.

(c) Political pressure groups influence and limit organizations.

Ques 8. What are the factors that influence technology?

Ans. Today, because of technology, we can move towards moon and mars, we can cross the seven seas within hours. That is a reason, there is a concept of global village. A business is always surrounded by interferer between business and technology.

A business is always surrounded by interference between business and technology:-

- ✓ Education
- ✓ Need of technology
- ✓ R &D need
- ✓ Communication importance
- ✓ Cost reduction
- ✓ Quality improvement
- ✓ Productivity enhancement

Ques 9. Explain organization?

Ans. Nothing is more important than self-analysis of the organization. The organization must know its vision, mission, objective, goal and, above all, its triggers and driving force. The following factors are influential for shaping organization: Owners, Individuals and Shareholders, they have vested interest in the well-being of the company

Ques 10. Explain market?

Ans. The market is larger than customers. We must know the size of market, potential of market and trends of market. The following can be some of the important issues of market study:

- ✓ Cost structure of the market
- ✓ The price sensitivity of the market
- ✓ Technological structure of the market
- ✓ The existing distribution system of the market
- ✓ Is the market mature?

Ques 11. Explain Intermediaries?

Ans. It Influences business in great quantum. It can be a key factor in business. Consumers get connected through intermediaries e.g. Big Bazaar

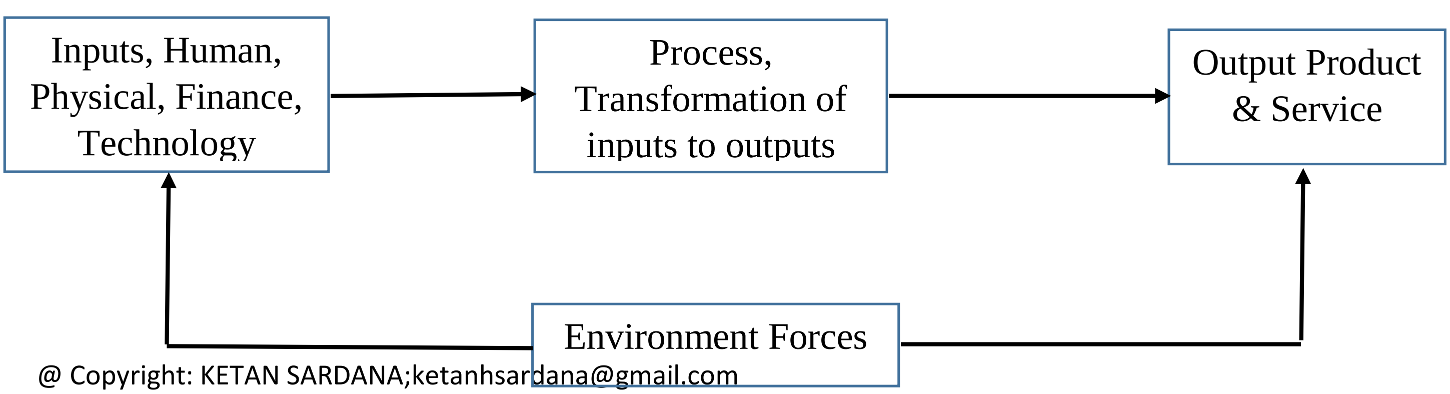
Ques 12. Explain Suppliers?

Ans. Suppliers form an important component of the micro environment. They provide raw material, equipment and different services. The decision about in-house production or outsourcing mostly depends upon commitment of suppliers.

Ques 13. What is the relationship between element of process and environmental forces?

Ans. Different origination use different input, adopt different process and generate different output, for e.g., hospital generates health and medical services organization depend upon the external environment for the inputs required by them and for the disposing off their outputs in a beneficial manner

The input –output exchange activity is a continuous process and calls for an active interaction with the external environment



Ques 14. What are the characteristics of Business Environment? (CDMA)

Ans. **CHARACTERISTICS OF BUSINESS ENVIRONMENT**

1. **Environment is complex**: Number of factors, events, conditions and influences arising from different sources. Interact with each other to create entirely new sets of influences
2. **Environment is dynamic**: constantly changing in nature
3. **Environment is multi-faceted**: A particular change in the environment or a new development may be viewed as a threat or an opportunity
4. **Environment has affect far reaching impact**: growth and profitability of an organization is affected

Ques 15. Why is environmental analysis necessary?

OR

What are the needs of analyzing business environment?

OR

How does the environment analysis help to achieve goal?

Ans. **Environment Analysis**

- ✓ To understand current and potential changes taking place in the environment.
- ✓ To provide inputs for strategic decision making
- ✓ To facilitate and foster strategic thinking in organizations Environment Analysis.

Environment analysis helps corporate house in the following:-

- ✓ Facilitate and foster strategic thinking
- ✓ Change understanding both present and future
- ✓ Input for strategic decision making
- ✓ Evaluating present strategy
- ✓ Formulating future strategy
- ✓ Setting strategic objectives to grow

Ques 16. What are the problems in understanding the environmental influences?

Ans Problem understanding the environment are:-

- **<u>Diversity of influences:</u>**
  - ✓ Understanding this can contribute to strategic decision-making.
  - ✓ Mere Listing of all possible environmental influences may not help in getting overall picture of important influences on the organization
- **<u>Uncertainty of influences:</u>**
  - ✓ Technology and global communications are changing rapidly
  - ✓ So it is very difficult to understand future external influences on an organization
- **<u>Complexity of Influences:</u>**
  - ✓ Simplifying complexity by focusing on aspects of the environment, which, have been historically important, or confirm prior views may not help.
  - ✓ Senior Mgr. should break out of oversimplification or bias in the understanding of their environment, while still achieving a useful and usable level of analysis.

<u>In Simplification:-</u>

1. The first problem is diversity. The various influence which affect the strategic decision making is diverse causing a problem
2. The second problem is uncertainty. Due to a rapid change in technological and global communications there is a element of uncertainty
3. The third problem lies in the simplification of problem by focusing on the aspects of environment, while doing this senior manager should not be biased which will help them to achieve a useful analysis

Ques 17. What are the different framework (plans) to understand the environmental influence?

Ans. Even though it is difficult to understand the business environment, the business manager cannot ignore it. Following step will help in understanding:-

1. **Nature of organization (Product/Service & related issues)**
2. **Evaluation (Auditing of environmental influence. Identify will effect Relate with latest trends)**
3. **Focus on immediate environment. (Forces which are explicitly more important example competition)**

- ❖ **<u>Take an initial view to ascertain the uncertainty</u>**
  - ✓ Is it Static or changing? Simple or complex. This helps in deciding what focus the rest of the analysis is to take.
- ❖ **<u>Auditing of environmental influences</u>**
  - ✓ Facilitate and foster strategic thinking
  - ✓ Change understanding both present and future
  - ✓ Input for strategic decision-making
  - ✓ Evaluating present strategy
  - ✓ Formulating future strategy
  - ✓ Setting strategic objective to grow
  - ✓ To attack competitors with full planning.
- ❖ **<u>Focus on immediate environment of the organization</u>**
  - ✓ For example, the competitive arena in which the organization operates.
  - ✓ By analysis of the five forces, we can identify the key forces at work in the immediate or competitive environment and why they are significant

Ques 18. Explain how and why organization and environment are interrelated?

Ans. The relationship can be seen In terms of interactions between them in several major areas which can be the following:

❖ **<u>Exchange of information:</u>**

- ✓ Scanning the external environmental variables and using it for planning, decision-making and control purposes.
- ✓ Occasional advertisements and annual reports. Supply information on its activities to governmental agencies, investors, employees, trade unions, professional bodies and the like.

❖ **Exchange of resources**:

- ✓ Finance, materials, manpower, equipment etc. From environment,
- ✓ Satisfying the expectations and demands of the clientele groups, such as customers, employees, shareholders, creditors, suppliers, local community, general public

❖ **Exchange of influence and power:**

- ✓ It offers a range of opportunities, incentives and rewards on the one hand and a set of constraints, threats and restrictions on the other. Eg: Govt Control
- ✓ Org can dictate terms on some of the external forces and mold them to its will.

Ques 19. What do you mean by Environmental Scanning?

Ans. Environmental Scanning is also known as Environmental Monitoring. It refers to the process of collecting information about company environment, analyzing the same and forecasting the impact. How far will the company go, largely depends upon how a company can synchronize its marketing, programmed with its environmental change. As we know, environment is Micro and Macro.

Refers to:-

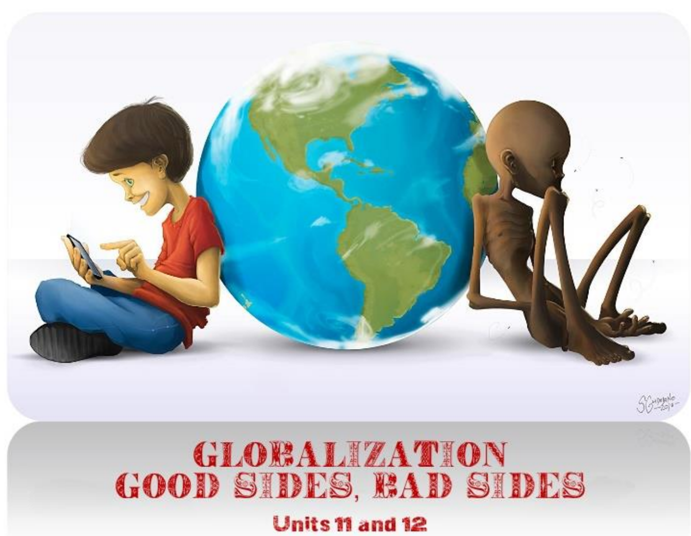
- ✓ Can be defined as the process
- ✓ by which organization monitor
- ✓ their relevant environment
- ✓ to identify opportunities & threats
- ✓ affecting their business for the purpose of taking strategic decision.

Ques 20. What do you mean by globalization?

Ans. Globalization:- It is a new paradigm , it means a set of beliefs, working methods and economic and political and socio cultural realities , For developing companies it means integration of the world economy .at company level it means having manufacturing around the world and competing with domestic as well as foreign competitors

Benefits of globalization:-

- ✓ configuring anywhere in the world
- ✓ entrepreneur and unit have a central economic role
- ✓ Interlinked and independent economies
- ✓ mobility of skilled resources
- ✓ lowering of trade and tariff barriers
- ✓ market side efficiency
- ✓ infrastructural resources and inputs at
- ✓ international prices
- ✓ formation of regional blocks
- ✓ increasing trend towards privatization



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Ques 21. What is meant by a global company? What are the three characteristics of global company?

Ans. Globalization refers to the process of integration of worlds into one huge market. At the company level globalization means two things:-

a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and

b) it also means ability to compete in domestic markets with foreign competitors.

A company which goes global is also called a Multinational Company (MNC). The global company views the world as one market, minimizing the importance of national boundaries. A global company has three characteristics:

- ✓ It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.
- ✓ Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.
- ✓ The units respond to some common strategy

Eg: Nestle International - Managers & Shareholders of different nations

Ques22. Why do companies go global?

Ans. There are several reasons why companies go global:

a. For market expansion
b. For increasing customer base
c. For developing new supply base everywhere around the world and reducing transportation, cost
d. For utilizing world class technology
e. For perfect know how, skills for private sector worldwide in order to grow
f. For motivation of being a global company

Ques23. What are the manifestations/effects or advantages of globalization?

Ans. The manifestations are:-

- ✓ Marketing anywhere in the world
- ✓ Competitive environment worldwide
- ✓ World interdependency
- ✓ Skilled workers matching international standards
- ✓ Technological revolution
- ✓ Knowledgeable and skilled resources
- ✓ Result oriented work culture

- ✓ Well defined functional responsibility
- ✓ Value for money on international level
- ✓ World class supply chain
- ✓ Focus on Regional Blocks

Ques 24. What do you mean by global environment?

Ans. Global Environment: - it refers to the positive and negative impact of significant international events such a terrorist attack or a sports meet, Differences in the cultural and institutionalization attributes of global markets, Identification of both important emerging global markets and global markets that are changing.

Ques 25. What are the factors that influence global environment?

Ans Generally, the following are the factors which influence the global environment:

(i) **Sport meet:** Sport meet decides the potential of the place on global scenario. It brings potential positive impact.

(ii) **Terrorist attack:** The Terrorist attack hampers the attractiveness of place in the world market. It creates the fear of environment among people across the world.

(iii) **Natural disaster:** The natural turmoil like tsunami such as Katrina creates fear for world community for place.

(iv) **Emerging new market such as China:** The environment is conducive. Even India is an emerging global market after 1992.

(v) **The culture and attributes towards change** contribute a lot in the process of globalization. Truly, culture of place and organization make it complete globalization.

Ques 26. What are the differences between MNC and TNC?

Ans. A company which has gone global is called a multinational (MNC) or a transnational (TNC). An MNC is, therefore, one that, by operating in more than one country gains R&D, production, marketing and financial advantages in its costs and reputation that are not available purely. The basic difference between a multinational and a transnational lies in the fact that transnational company is borderless, as it does not consider any particular country as its base, home or headquarter. Multinational companies, though having a parent country and a centralized decision making process, adopts a selling strategy that is unique to every other country where it has invested. This strategy is made keeping in mind the requirements of the local markets and the rules and regulations of the government. Often MNC's have to abide by sensitivities and culture of the local people.

- ✓ **MNC which has its operational headquarter based in one country and several operating branches in other countries.**
- ✓ **TNC are enterprises which own or control production or service facilities outside the country in which they are based.**
- ✓ **MNC have branches in other countries while TNC have subsidiaries**
- ✓ **MNC have international identity belonging to home country, TNC are more or less borderless in this regard do not consider a particular country as this base.**

Ques 27. What are the strategic response to the environment?

Ans. The primary responsibility of organization is to harness and use environment to grab opportunity and challenge threats. In the context following are important:-

1) **Least resistance:-** Will not act or react, They will adjust with whatever comes
2) **Proceed with caution: -** They are those company which use the environment and move with caution.
3) **Dynamic response: -** They are partly proactive and partly reactive. These are very high level action oriented.

Ques 28. Explain critically the competitive environment. What are the type of co-operation in competitive environment?

Ans. <u>**Competitive Environment**</u>

- ✓ The essence of strategy formulation is coping with competition.
- ✓ Intense competition is neither a confidence nor a bad luck.
- ✓ All organizations have competition.
- ✓ Even large public sector monopolies are facing competition.
- ✓ For business organization competition affects its prices and scale of operations.
- ✓ The benefit of Competition is also enjoyed by the society and markets in which organization operates.
- ✓ Customers get better products at lower prices.
- ✓ Competition may not be necessarily for the same product or service.

Following things should be considered to understand the nature and extent of competition.

a. Who are the competitors?

b. Their product & service.

c. Market share

d. Financial positions.

e. Cost and price advantage.

f. What will be there next move?

There are five types of co-operation in competition:-

1. Cartelisation
2. Kieretsus
3. Family owned co-operation
4. Conglomerate
5. Consortium

1) <u>Cartelisation :-</u> In an oligopoly industry , a group of producers and manufacturers agree to fix prices , marketing and production by way of explicit agreement, the aim being to increase each individual members profit by reducing competition.

2) **<u>Kieretsus: -</u>** It is a Japanese word, it is formed to enhance the abilities of individual member business to competing their respective fields. The primary aim is to maximize profits and to minimize cost, e.g. Airtel and Nokia are not related yet they are Kieretsus.

3) <u>Family owned co-operation:-</u> Family are always combined, Family means kith and kin of one family. For e.g. The Tata's, Birlas and Ambanis, However there is a disadvantage in this, a minor dispute will be a direct hit to environment. Ownership problems always exist.

AVALON
EQUIPMENT CORPORATION
rentals - sales - repair - calibration - buybacks

4) **<u>Conglomerate:-</u>** Conglomerate is a combination of 2 or more corporations engaged in entirely different business , usually involving a parent company and several subsidiaries

5) **Consortium: -** An association of companies for some definite purpose. Financial institution or investors for the purpose of being in joint venture

What is a Kieretsu? (Most Imp)

- ✓ A kieretsu is a loosely-coupled group of companies, usually in related industries.
- ✓ Kieretsu members are peers and may own significant amounts of each other's stock and have many board members in common
- ✓ The primary purpose of a kieretsu is not to share information or agree industry standards, but to share purchasing, distribution or any other functions.
- ✓ In Kieretsu members remain independent companies in their own right:
- ✓ Common Strategy =is to prefer to do business with other kieretsu members, both when buying and when selling.

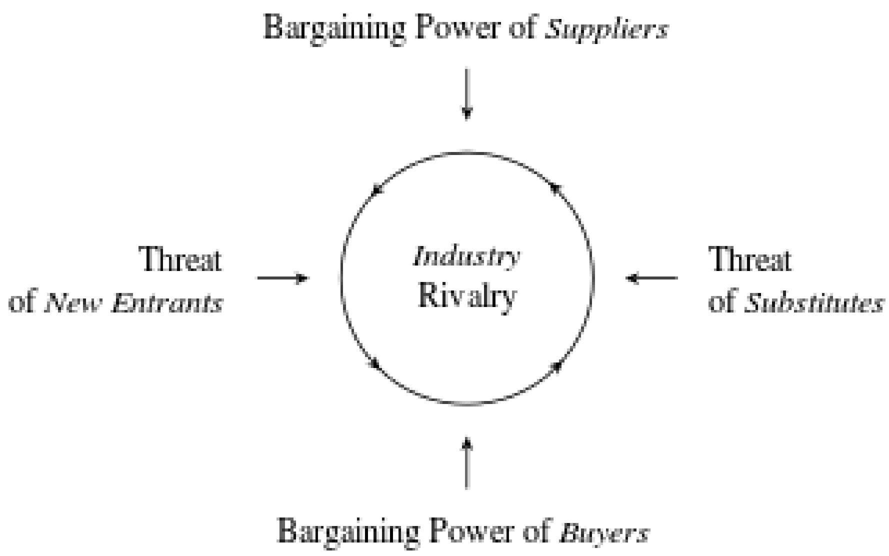
Ques 29. Explain Porter's five forces model of competitive analysis?

Ans. This model is

---A powerful and widely used tool

---for systematically diagnosing the principal competitive pressures in a market

---and assessing the strength and importance of each is the five-force model of competition



Porter explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five "competitive forces" are:

- ✓ The threat of **entry of new** competitors (new entrants)
- ✓ The threat of **substitutes**
- ✓ The **bargaining power of buyers**
- ✓ The **bargaining power of suppliers**
- ✓ The degree of **rivalry** between existing competitors

- ❖ **Threat of new entrants**:
  - ✓ Product range they bring in
  - ✓ Size of new entrant
  - ✓ Price limitation placed by him
- ❖ **Bargaining power of customers**:
  - ✓ Formation of Cartels or Groups
  - ✓ Influences prices, costs and investments of the producer
- ❖ **Bargaining power of suppliers**
  - ✓ No. of Suppliers in Market & Bargaining Power inversely related
  - ✓ It determines the cost of raw materials, industry attractiveness and profitability.
- ❖ **Rivalry among current players:**
  - ✓ The competitors influence prices as well as the costs
  - ✓ Production facilities product development, advertising, sales force, etc.
- ❖ **Threats from substitutes**
  - ✓ Limit the prices and profits 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.

Ques 30. What three steps are followed for using Porter's five forces?

Ans. The steps are:-

Step 1. Identify the specific competitive pressure associated with each of the five forces.

Step 2. Evaluate how strong the pressure comprising each of the forces are (fierce, strong, moderate to normal, or weak).

Step 3. Determine whether the collective strength of the five competitive forces are conducive to earning attractive profits.

Ques 31. What are the different components of Business Environment?

Ans. Components of business environment

External environment. (Macro)= all the factors outside the organization which provide opportunity or pose threats to the organization.

Internal environment. (Micro)= all the factors within an organization which impart strengths or cause weaknesses of a strategic nature.

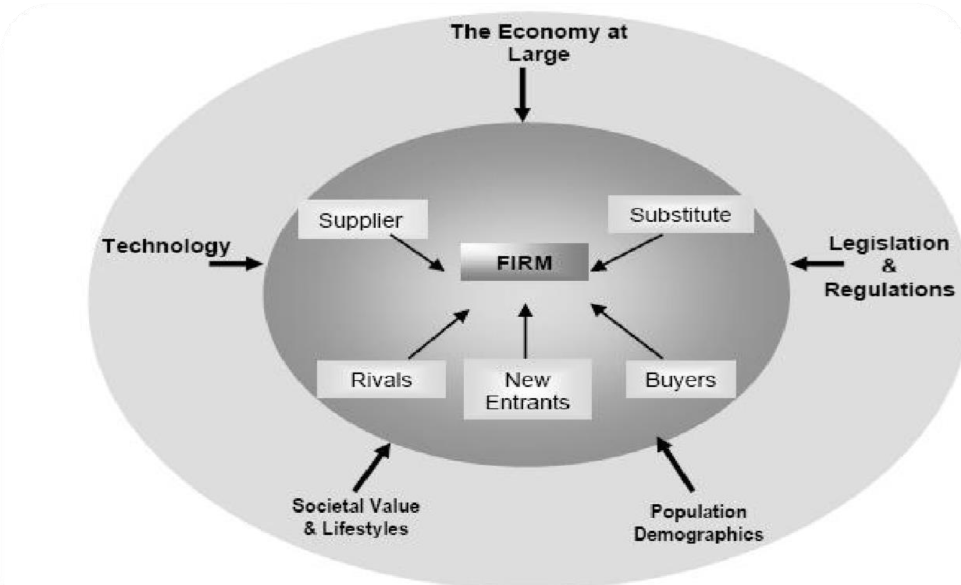


Figure: A Company's Business Environment

Ques 32. Explain briefly the different strategic approaches for globalization by a company?

Ans. A firm/company that wishes to go global will be guided by the following four types of strategies:-

- **Multi domestic strategy: -** In this focus is on the competition within each country where the firm operates. It is adopted where the organization attempts to extensively customize the product and services according to the local condition of different countries
- **Global Strategy: -** Here there is more focus on the standardization of process across the nation, here there is a leverage achieved between the maximum /optimum output along with the low cost structure. Competitive strategy is centralized and controlled by the home office.

- **<u>Transnational strategy: -</u>** Emphasis is on both global integration and coordination which is achieved by combining the aspects of both domestic and global strategies, however this is difficult to implement
- When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved through the following options:
  - ✓ Exporting
  - ✓ Licensing/Franchising
  - ✓ Joint Venture
  - ✓ Foreign Direct Investment

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