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Block-1 **EVOLUTION OF BUSINESS POLICIES**

Unit-1 INTRODUCTION TO BUSINESS POLICY

- Introduction
- Overview of Business Policies
- Importance of Business Policies
- Definitions of Policy, Procedures
- Process and Programmes
- Types of Policies
- Business Policy Statements,
- Corporate Culture.

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BUSINESS POLICY:

Business policies are the guidelines formulated by an organization to govern its actions. They define the limits and the scope within which decisions must be made by the subordinates. It allows the lower level management to deal with the issues and challenges without consulting top level management every time for making decisions.

The term "Business Policy" comprises of two words, Business and Policy. Business as we know means exchange of goods and services for increasing utilities. Policy may be defined as "the mode of thought and the principles underlying the activities of an organization or an institution." Policies are general statements of principles which guide the thinking, decision- making and actions in an organization.

Business policy is a set of principles and rules which directs the decisions of the subordinates. Policies are framed by the top level management to serve as a road map for operational decision making. It is helpful in stressing the rules, principles and values of the organization. Policies are designed, by taking opinions and general views of a number of people in the organization regarding any situation. They are made from the past experience and basic understanding. In this way, the people who come under the range of such policies will completely agree upon its implementation. Policies help the management of an organization to determine what is to be done, in a particular situation. These have to be consistently applied over a long period of time to avoid discrepancies and overlapping.

R.E.Thomas: “Business Policy, basically, deals with decisions regarding the future of an on-going enterprise. Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in relation to its environment”.

Features of Business Policy:

An effective business policy must have following features-

a) **Specific-** Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.
b) **Clear-** Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.
c) **Reliable/Uniform-** Policy must be uniform enough so that it can be efficiently followed by the subordinates.
d) **Appropriate-** Policy should be appropriate to the present organizational goal.
e) **Simple-** A policy should be simple and easily understood by all in the organization.
f) **Inclusive/Comprehensive-** In order to have a wide scope, a policy must be comprehensive.
g) **Flexible-** Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.
h) **Stable-** Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

SIGNIFICANCE OF THE SUBJECT:

This subject has a certain significance they are broadly classified into three, they are;

1. **knowledge uses:**
   a) Knowledge of concepts, i.e., what concept to use and when to use.
   b) Knowledge about the business environment
   c) Real life knowledge about practical (happening) aspects of business
   d) Knowledge about standards and methods of evaluations (of whatever is happening in the organization and outside and how standards are set, modified and work evaluated)

e) Build up business literature: all relevant, important happenings and related information about what is taking place in the organization and outside, will help future plans, policies and decisions.

2. **skill uses:**
   a) **Analytical skills:** for developing the organization and its standards.
   b) **Empirical skills:** for testing any concept which is to be introduced newly into the organization, the organization should be capable of testing from positive and negative angles.
   c) **Decision making skills:** to make the right decision, at the right time to help increase profit and improve the organization.
   d) **Intuitive skills:** every business owner should have an idea to guess what may happen in the future and take suitable actions or develop policies in advance
   e) **Communication skills:** so as to help inform others and gather data from others, for overall organizational development.
3. **attitude uses:**
   a) **Develop wholesome approach rather than narrow approach**; this will involve the entire business than taking or giving importance to any one part of the organization. Thus, a whole some approach covering he entire organization is always better than a narrow approach.
   b) **Creative and innovative approach:** organizations should be creative, i.e., adopt new approaches to get better profits or make new product or they can also be innovative by altering the existing products slightly suit the existing markets, increase the market share or organisation image.
   c) **Flexibility and dynamism:** the organisation should be flexible to suit and change or modify itself to the changing environmental conditions. It should have dynamism to adopt new technology or changes as per new technology or changes as per organisation need and requirement
   d) **Intuition:** the people at the top level in the organisation should be capable to foresee the future of the organisation based on very limited data available at present.

CLASSIFICATION OF POLICIES

Similar to objectives policies are also classified. They are as follows;

- According to level of formation
- Functional area policies
- According to expression
- According to nature of origin
- According to scope of organisation
- According to the nature of managerial functions
- Situational or contingency policies

ACCORDING TO LEVEL OF FORMULATION

a) **Top Management policies:** These are usually developed by the MD, VC, and GM. They are usually about investments, diversification, acquisitions, available capital, HR requirement, R & D requirements, problems with promotion, transfer, and achieving organizational goals, etc.
b) **Middle level Management policies:** These are developed after talks between middle and upper level executives. They usually are about employee selection for a specific job, installation (fixing) new equipment's, resources and their selection, deciding wages and salaries, and developing incentive plans, getting finance to solve problems, etc.
c) **Lower Level Management policies:** These are developed by the people who are usually supervisors. They are directly related in achieved. They are in-charge of providing tools, raw materials, training, quality, discipline, improving the morale of employees, motivating them and reducing absenteeism, etc
d) **Operational Level Management policies:** This is usually written down rules and policies in manuals and work books which the operational level employees are supposed to follow.

ACCORDING TO FUNCTIONAL AREA

a) **Production Policies:** These involve policies regarding product line, type of product, selection of technology, process, equipment, tools, location of plant, layout, budget, maintenance, inventory control, quality, cost control, labor relations, etc.
b) **Marketing and sales policies:** These are related to market analysis, trend, demand forecasting, total concept of product mix and market mix. Spotting present and potential market, the size and nature of customers, competitors, distribution of products, promotion and pricing, selection, training and developing sales force, division of market area, establishing sales volume and sales budgets, etc.

c) **Financial Policies:** These are required for prosperity and long survival. They include capital requirement such as working, short, medium, and long term, methods of fund raising, utilization of funds, profit policy, accounting policy, allocation policy, finished goods inventory policy, provision for bad debts, etc

d) **Personnel Policies:** These are concerned with recruitments, selection, and utilization of human resources. Sources of HR, training, promotion, transfer, wages, incentives, benefits, services, etc.

ACCORDING TO EXPRESSION

a) **Oral policies:** These are word of mouth policies adopted usually, when organizations are small and face to face communication is desired. Direct communication with better understanding is desired, for flexibility. However, it suffers from drawbacks like improper interpretation, easily forgotten when issued less frequently etc.

b) **Written Policies:** These are put in black and white and stated clearly, for the personnel to understand. Therefore, it is clear, complete, precise, contain legal terms use simple language and be warm to all those who read. It should be convenient and handy for reference and application wherever and whenever necessary. However, they too have disadvantages, as they are at times problem creating if not properly framed.

c) **Implied Policies:** These can be understood from the behaviour of executives, they are not stated or written, they may be included in the philosophy of the business, social values and even traditions. Best suitable are dress codes, prohibition of smoking or drinking in working areas. Employing people of certain community, race, gender, etc can only be an implied policy, but written policies like above can cause legal problems.

ACCORDING TO NATURE OF ORIGIN

a) **Originated Policies:** These policies are derived from the company objectives, which are determined by the top management. Subordinate are supposed to readily accept such policies.

b) **Appealed Policies:** These are also known as “suggested policies”, since these are based on the suggestions of employees, subordinate or consultant. They are more effective as they involve employees and the top management.

c) **Imposed Policies:** These are not accepted willingly, but are rather forced by external forces like government, trade unions, legal acts, society, etc. they have to be followed whether they like it or not.

d) **Derivate Policies:** These are derived from the basic or major policies and are operational. They are guidelines in day-to-day operations and are usually developed by the respective departments or sections.

ACCORDING TO THE SCOPE OF ORGANISATION

a) **Basic Policies:** They form the basis of the organization and are developed by top management. They give idea about the company, its activities, its environment, and their influence over other policies, which is very important to the organization.
b) **General Policies:** They are usually developed by the middle level management. Such policies are very specific and apply to large segments of the organizations.
c) **Specific or departmental Policies:** It is developed by a specific department, for managing its routine activities i.e., day-to-day activities of the department.

ACCORDING TO THE NATURE OF MANAGERIAL FUNCTIONS

a) **Planning Policies:** These are connected with the path of action, which leads to company activities, and achieving organizational goals. They include;
    - Establishing corporate objectives.
    - Collecting and classifying information
    - Developing alternate course of action
    - Comparison of objectives against feasibility, consequence etc
    - Optimum (minimum use of resources) course of action
    - Establishing standards, rules, policies, procedures, programs, budgets, etc
b) **Organizing Policies:** These policies include
    - Establishing and maintaining a clear and precise organizational structure
    - Determining the role of each level of management
    - Deciding authority, responsibility, degree of centralization, decentralization
    - Line and staff relationship and their communication
c) **Directional Policies:** They are also called ‘actuating’ policies, they involve
    - Providing effective leadership

- Assisting people in achieving their objectives and organizational goals.
- Integrating people to suitable tasks
- Effective communication with all members of the organization.
- Proper organizational climate for employee development and motivation

d) **Controlling Policies:** These are established to measure results. They involve measuring actual results against standards or pre-established results. They involve

- Continuous observation of performance
- Measurement of results
- Finding deviation and taking corrective action
- Best mode of control
- Comparison of actual with standards
- Finding causes for deviations, pin-pointing deviations which are significant
- Implementing corrective action when there is deviation

SITUATIONAL AND CONTINGENCY POLICIES

a) **Normal Policies:** These policies provide guidelines to the employees in routine day-to-day conduct of business and its smooth functioning.

b) **Contingency Policies:** These policies are made to meet unexpected moments or situations like

- Sudden floods, earth quakes, fire, famine, market slump
- Change in business cycles, war, labor strike, political problems, and social sensitivity.
- Situational beyond the control of business unit like economic policy, fiscal policy changes, monetary policy, trade or industrial policy being unfavourable.
- Competitors' strategies in production, R & D, innovations, quality improvement, new techniques of production.

Most companies which are farsighted prepare contingency policies well in advance, to help them to meet the situations whenever they arise.

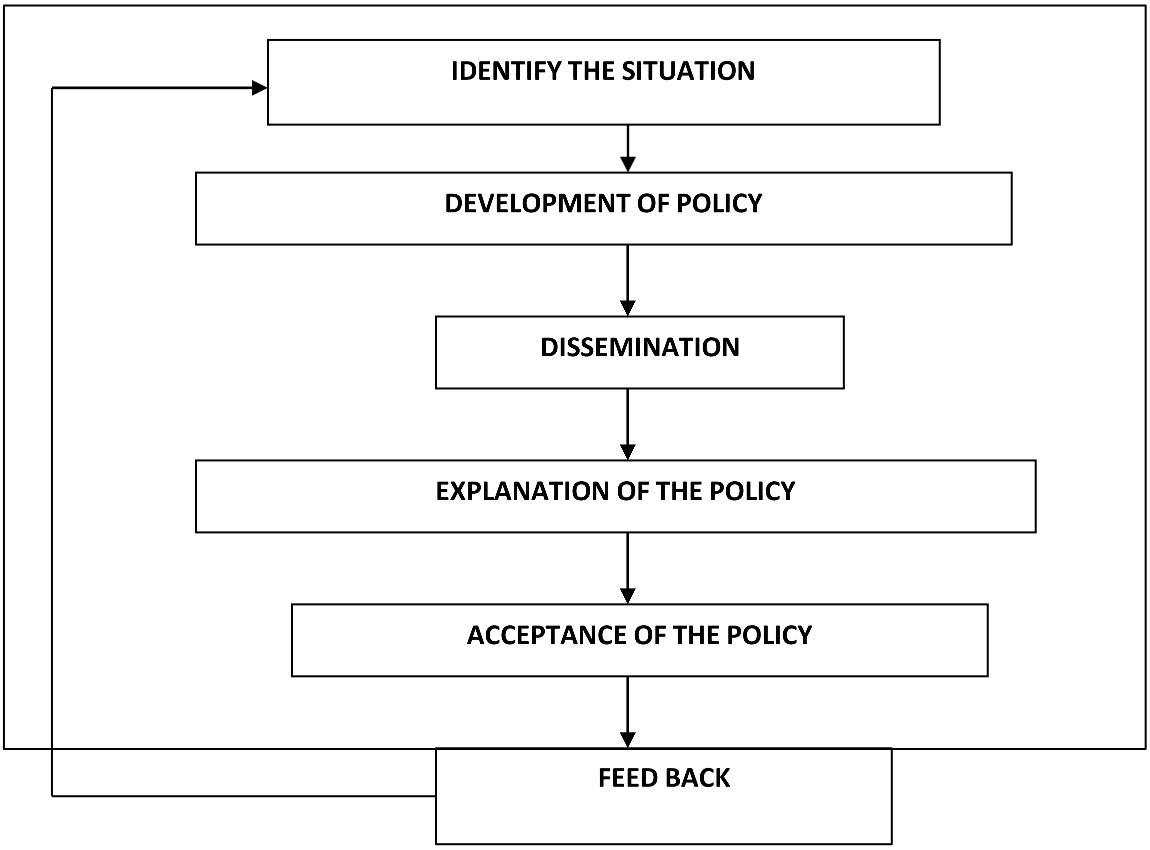
PROCEDURE OF POLICY MAKING:

Policy can be defined as follows;

"Business policy is an implied overall guide, setting up boundaries, that supply the general limits and direction in which management action will take place" - Prof. George Terry

Besides a business policy - "is nothing more than a well-developed statement of individuals and goals" - Prof. Peter and Wotrube.

STEPS IN POLICY MAKING:



CHIEF FEATURES OF POLICY:

The following are the important features of any policy

- ✓ policies are general statements for the attainment of objectives
- ✓ policies have hierarchy
- ✓ policies limit the area within which the decision is to be taken
- ✓ policies in general are meant for mutual application by subordinates
- ✓ they pre decide issues and avoid repetition
- ✓ it should be applied in all functional areas and at all levels
- ✓ it should provide the clearest guidelines to avoid confusion

PROGRAM AND ITS EFFECTIVENESS

Program has the following definitions "It is a single use comprehensive plan laying down the principle steps for accomplishing (completing) a specific job or objective in a specific time".

Thus, it outlines by whom, when and where new product development programs, management programs, training, sales programs, etc

EFFECTIVE PROGRAMS

An effective program has the following steps:

- it is divided into several steps for achieving objectives
- it establishes relationship between several steps to ensure a smooth flow of the sequence of operations.
- It decides responsibility and accountability
- It determines the resources needed
- It fixes the time limit by assigning a time for each program, etc

DIFFERENCE BETWEEN POLICIES AND PROGRAMS

The differences between policies and programs are given below;

CONCEPT	POLICY	PROGRAM
Definition	Broad and comprehensive guidelines about the future direction of the company	Detailed step by step course of action
Time period	Long range plan of action	Short and stable
Type	Broad in direction and has to be followed	Simple and complex activities taken up to carry out the given policy
Basics	It is the foundation for programs	It exists due to policies

PROCEDURES ITS IMPORTANCE:

Procedures can be definite in several ways;"A series of functions or steps taken up to accomplish a specific task" It can also be defined as" It is a precise means of making a step by step guide of action that operates within a policy frame work".

IMPORTANCE OF PROCEDURES:

The importances of procedures are given below;

- It reduces directing work
- It indicates the steps to be taken and the required time and the order for performing certain activities
- It facilities training
- It reduces the problem of trial and error techniques
- Work operation gets simplified through a well-planned steps
- Better results at lower costs
- The true limit in performance helps in effective control over operations

STEPS IN EFFECTIVE PROCEDURE:

The following are the steps in effective procedures;

- List out the detailed and essential steps and then taken up performance
- Establish accountability and responsibility then standardize the procedure
- All the phases are to be linked with control so that performance can be reviewed
- They should be stable and not rigid
- Develop fruitful decisions in policies by taking into consideration, time, cost and environment
- Any changes to be made should be taken up well in advance and should be written down to help easy understanding
- These procedures should be understood, accepted and known to everyone involved with them.

DIFFERENCE BETWEEN POLICIES AND PROCEDURES

The following are the differences between policies and procedures;

CONCEPT	POLICY	PROCEDURE
Definition	Guide for thought and action	Guide for action and involves the method of doing a task
Basis	Foundation for procedures	They follow policies
Responsibility	Top management	Middle and lower levels
Stability	Stable	Changes in the short-run
Emphasis	General approach	Step-by-step approach
Scope and flexibility	Broad and comprehensive	Rigid with no freedom
Application	Long range plans	Short range plans
Goal orientation	Directly related	Indirectly related
Work methodology	Does not provide a method for doing work	A standard method for work exists

MISSION: Mission of any organisation identifies with**,** "the scope of operations of an organisation. It gives the reason for the existence of an organisation and clearly an organisation with a mission finds it easier to succeed than an organisation without one".

Thus, mission of any organisation is to see the scope of an organisation or the boundary of an organization, or the limit to which the organisation can expand or reach.

EXAMPLE: IOCL (INDIAN OIL COPORATION LIMITED) has its mission statement as thus:

"Maintaining national leadership in oil refining, marketing and pipeline transportation".

VISION: These are long term goal projections as to what one is to be. What is intended to do over a long period?

Vision of any organisation can be defined as; "the goals that are the broadest, most general and all inclusive. The most effective visions are those that appeal to the emotions of the employees and the aspirations of the organization's management". Thus, they reveal what the organisation should be like in the future.

EXAMPLE: IOCL vision states that, "Indian Oil aims to achieve international standards of excellence in all aspects of energy and diversified businesses with focus on customer delight through quality products and services".

CHARACTERISTICS OF MISSION AND VISION STATEMENT

The following are the chief or important characteristics of mission and vision statements. They are;

- It should be feasible.
- It should be precise.
- It should be clear.
- It should be motivating.
- It should be distinctive.
- It should indicate the major components of strategy.
- It should indicate how objectives are to be accomplished.

INPUT FORMULATION OF MISSION STATEMENT:

The mission statement should identify the forces that drive the organization's strategic vision. The mission statement must reflect the values, beliefs, and philosophy of operations of the organization. The mission statement should be achievable. It should be realistic enough for organization members to buy into it. The mission statements stage the role that organization plays in society. It is one of the popular philosophical issues which are being looked into business mangers since last two decades.

Criteria of Mission Statement: In order to be effective, a mission statement should possess the following criteria.

- The mission statement should focus on satisfying customer needs
- The mission statement should tell "Who" their customers are

- The mission statement should explain “What” customer needs the company is trying to satisfy
- The mission statement should explain “How” the company should serve its customers
- The mission statement should be based on a competitive advantage
- The mission statement should be based on the distinctive core competencies
- The mission statement should motivate and inspire employee commitment
- The mission statement should be realistic
- The mission statement should be specific, short and sharply focused
- The mission statement should be clear and easily understood.

Examples of Mission Statement:

- India Today “ The complete new magazine”
- Bajaj Auto, “Value for Money for Years”
- HCL, “ To be a world class Competitor”
- HMT, “Timekeepers of the Nation”
- Some experts argue that these are the publicity slogans. They are not mission statements. A few other examples are as follows:
- Ranbaxy Industries “To become a research based international Pharmaceuticals Company”.
- Eicher Consultancy “To make India an economic power in the lifetime, about 10 to 15 years, of its founding senior managers.”

GOALS: Goals denote what an organization hopes to accomplish in future period of time. They represent a future state or an outcome of the effort put in now (both financial and non-financial issues, qualitative) to achieve objectives.

OBJECTIVES: “the ends that state specifically what the goals should achieve. They are strong (concrete) and specific, in contrast (comparative) to goals which can be generalized (qualitative)”.

EXAMPLE: IOCL’s objectives are to focus on cost, quality, customer care, value addition and risk management.

ROLE OF OBJECTIVES:

The following are the role of objectives;

- Objectives define the organisation relationship with its environment.
- Objectives help an organisation to pursue its vision and mission.
- Objectives provide the basis for strategic decision making.
- Objectives provide the standards for performance appraisal.

CHARACTERISTICS OF OBJECTIVES:

The objectives have certain characteristics, they are;

- Understandable (clarity).
- Concrete and specific (specificity)
- Related to a time frame (periodicity)
- Measurable and controllable (verifiability)
- Challenging and good (quality)
- Correlate with other objectives (multi publicity)
- Set within constraints (reality)

TYPES OF OBJECTIVES:

The different types of objectives are

- Economic objectives: financial aspects, fiscal and other objectives
- Social objectives: objectives, which are societal suitable and acceptable
- Survival objectives: objectives established or taken up by companies to survive, or exist in the business
- Growth objectives: established by firms or organizations to grow and develop.
- Long term objectives: objectives established for a period of more than an year
- Short term objectives: objectives that are established for a period of less than a year.
- Higher level objectives: the objectives that are established for the strategic level or top level of the organisation

- Lower level objectives: the objectives that are established for lower level of the organization or the middle level
- General objectives: objectives which cover the overall aspect of the business
- Specific objectives: objectives that are specific with clear instructions for any business are termed thus
- Comprehensive objectives: a concise, brief list of objectives covering all areas of the organisation
- Functional objectives: a set of objectives specifically developed for each functional area in the organisation like HR, R&D, finance, Quality Control, Marketing, and Production and so on.

DRUCKER'S VIEWS ON PERFORMANCE - CONCEPT:

"Performance" is the synonymy of "Result". Drucker had in-depth discussion on performance and result in his writings. Performance plays a significant role in Drucker's management theory. Two fundamental management tools – Innovation and Business theory of an organization, are seen as two utmost important Drucker's ideologies.

Importance of performance is conspicuous. However, the problem is how can we be certain that we attain performance? How do we know if the result attained is our final goal? What determines the performance and result? The answers to all these questions have to be referred to the business objectives of the enterprise or organization.

Drucker suggests that, we have to set the organizational objectives based on the evaluation of the outer environment, as well as the goal and competence of the organization. And we will be able to outline the expected performance and result based on the organizational objectives. This process is the essence of strategic planning, which also constitutes the business theory of an organization or enterprise.

Drucker has raised three classic questions to explain the concept of theory of the business: What is the nature of our business? Who are our customers? What are the core values of the customers? Our path of thinking and answers to these questions should be derived from essences of these questions; the answers will help us out with constructing the strategy for actualizing centralization within an organization.

We have to identify the client groups that need you the most, at the same time you are most willing to satisfy their needs and skillful at serving them. If you are able to integrate these two criteria, then you will succeed in grasping the target market.

Centralization is a business strategy that forces you to choose your battlefield, and it determines the placement of the resources of the company. In the end, business objectives have to be actualized by applying it on actual works and ideologies of the company, if not it will simply become autistic thinking. The most important aspect of business strategy and business objectives, is to plan out the strategic business moves that will lead to attainment of the performance goal; while distribute enough resources, including the best talents within an organization, for the business moves.

None of the marketing theories are everlasting, they need to be revised, reviewed and even rebuilt from time to time. Although enterprises that have over hundred years of history do exist, none of them stake their survival on a single product throughout the enterprise history. On the other hand, none of these enterprises follow through the same marketing strategies and management methods in order to survive.

Drucker emphasizes that all products, services, working process and marketing strategy have to be reviewed periodically, so as to find out which components are outdated and invalid.

Revision of business theory does not induce innovation. Organization needs to innovate from time to time, even when the current business theory is still workable. However, invention of a new business theory brings about important innovation.
A new business theory is not an extension of the existing market and product line; instead it leads to products and markets that are never seen before.

An enterprise only has two obligations: Marketing and Innovation. Only these two tasks can bring about results, while all others are considered as cost of the business. Building the business theory of an organization is the fundamental marketing tasks. Business theory assists the company with exploring the needs of customers; thus, any amendment to the business theory is the upmost important innovation of an enterprise.

From this angle of view, we know that innovation should be treated as the active marketing. In today's volatile economy, the revision of business theory becomes more frequent than before. In the past some of the renowned enterprises can survive on the same business theory for a few decades, or even half a century; however, this is no longer the case. The change also indicates that all modern managers have to be ready for innovation at all time, instead of simply modifying the qualities of the existing products, working process and services.

Although we are situated in an era that all business theories are needed to be modified constantly; nevertheless, it gives us the chance to enter new business sectors and new markets. The era is pushed forward by innovation; today is the era of which the newcomers surpass the old-timers.

Performance is a cruel master. It requires all managers to shoulder the responsibilities of fostering the social resources, Drucker called this the ethics responsibility, legality and righteousness of management; on the other hand, the quest for high standard of performance motivates all managers and their subordinates to perform at their full potentials; it also help to build sense of achievement while actualize the freedom and dignity of everyone.

"Management is to make an organization to attain high performance." Human has invented all sorts of tools in the history, which extended from manual tools to mechanical facilities, atomic science, spaceships, Internet and biological engineering. Human beings can do both good deeds and bad deeds by using any of the above tools. Management is also a tool, and it is far more effective than all kinds of high technology.

In fact, management determines the usage of all resources, including both live and dead resources, physical resources and knowledge resources; while it also determines the efficiency of these recourses. However, management is different from other tools. People cannot use the power of management to control others nor utilize their bad deeds.

Management is a tool for bringing about goodness. The ultimate goal of management is to bring about positive change and improve the living qualities of people. Goodness is the inborn nature of management; it helps to determine what kinds of enterprise performance are needed by the society.

STRATEGIC MANAGEMENT – MEANING AND CONCEPT:

The Strategic Management process is the way in which strategists determine objectives and make strategic decisions. Strategic Management can be found in various types of organizations, business, service, cooperative, government, and the like.

Strategic Management can be defined as “the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives”

Bowman, Singh, and Thomas (2002) Strategic management is about the direction of organizations, most often, business firms. It includes those subjects of primary concern to senior management, or to anyone seeking reasons for success and failure among organizations.

Some important objectives of strategic management are as follows:

1. To exploit and create new and different opportunities for tomorrow.
2. To provide the conceptual frameworks that will help a manager understand the key relationships among actions, context, and performance.
3. To put an organisation into a competitive position.
4. To sustain and improve that position by the deployment and acquisition of appropriate resources and by monitoring and responding to environmental changes.
5. To monitor and respond to the demands of key stakeholders.
6. To find, attract, and keep customers.
7. To ensure that the company is meeting the needs and wants of its customers, which is a cornerstone in providing the quality product or service that customers really want.
8. To sustain a competitive position.
9. To utilize the company’s strengths and take full advantage of its competitor’s weaknesses.
10. To understand the various concepts involved like strategy, policies, plans and programmes.
11. To have knowledge about environment—how it affects the functioning of an organisation.
12. To determine the mission, objectives and strategies of a firm and to visualize how the implementation of strategies can take place.

Nature and Scope of Strategic Management:

Strategic management is both an Art and science of formulating, implementing, and evaluating, cross-functional decisions that facilitate an organization to accomplish its objectives. The purpose of strategic management is to use and create new and different opportunities for future. The nature of Strategic Management is dissimilar form other facets of management as it demands awareness to the "**big picture**" and a rational assessment of the future options. It offers a strategic direction endorsed by the team and stakeholders, a clear business strategy and vision for the future, a method for accountability, and a structure for governance at the different levels, a logical framework to handle risk in order to guarantee business continuity, the capability to exploit opportunities and react to external change by taking ongoing strategic decisions.

Strategic management process encompasses of following phases.

- Establishing the hierarchy of strategic intent
- Strategic formulation.
- Implementation
- Evaluation and control.

Strategy formulation comprises of developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, creating alternative strategies, and choosing particular strategies to follow.

Strategy implementation needs a company to ascertain annual objectives, formulate policies, stimulate employees, and assign resources so that formulated strategies can be implemented. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and relating employee reward to organizational performance.

Strategy evaluation is the last stage in strategic management. Managers must know when particular strategies are not working well. Strategy evaluation is the main process for obtaining this information.

Importance of Strategic Management:

Planning or designing a strategy involves a great deal of risk and resource assessment, ways to counter the risks, and effective utilization of resources all while trying to achieve a significant purpose.

An organization is generally established with a goal in mind, and this goal defines the purpose for its existence. All of the work carried out by the organization revolves around this particular goal, and it has to align its internal resources and external environment in a way that the goal is achieved in rational expected time.

Undoubtedly, since an organization is a big entity with probably a huge underlying investment, strategizing becomes a necessary factor for successful working internally, as well as to get feasible returns on the expended money.

Strategic Management on a corporate level normally incorporates preparation for future opportunities, risks and market trends. This makes way for the firms to analyze, examine and execute administration in a manner that is most likely to achieve the set aims. As such, strategizing or planning must be covered as the deciding administration factor.

Strategic Management and the role it plays in the accomplishments of firms has been a subject of thorough research and study for an extensive period of time now. Strategic Management in an organization ensures that goals are set, primary issues are outlined, time and resources are pivoted, functioning is consolidated, internal environment is set towards achieving the objectives, consequences and results are concurred upon, and the organization remains flexible towards any external changes.

As more and more organizations have started to realize that strategic planning is the fundamental aspect in successfully assisting them through any sudden contingencies, either internally or externally, they have started to absorb strategy management starting from the most basic administration levels. In actuality, strategy management is the essence of an absolute administration plan. For large organizations, with a complex organizational structure and extreme regimentation, strategizing is embedded at every tier.

Apart from faster and effective decision making, pursuing opportunities and directing work, strategic management assists with cutting back costs, employee motivation and gratification, counteracting threats or better, converting these threats into opportunities, predicting probable market trends, and improving overall performance.

Keeping in mind the long-term benefits to organizations, strategic planning drives them to focus on the internal environment, through encouraging and setting challenges for employees, helping them achieve personal as well as organizational objectives. At the same time, it is also ensured that external challenges are taken care of, adverse situations are tackled and threats are analyzed to turn them into probable opportunities.

BLOCK-2 POLICY AND DECISION MAKING

UNIT-2 STRATEGIC ANALYSIS MODELS AND TOOLS

External Environment- Appraisal using PESTEL – Competitor Analysis using Porter's 5-Forces model-Environmental Threat and Opportunity Profile (ETOP) -Value chain Analysis- Scanning Functional Resources and Capabilities for building Organization Capability Profile (OCP) SWOT Analysis.

STRATEGIC ANALYSIS – CONCEPT:

Strategic analysis refers to the process of conducting research on a company and its operating environment to formulate a strategy. The definition of strategic analysis may differ from an academic or business perspective, but the process involves several commonfactors:

- Identifying and evaluating data relevant to the company'sstrategy.
- Defining the internal and external environments to beanalysed.
- Using several analytic methods such as Porter's five forces analysis, SWOT analysis, and value chain analysis.

Strategic analysis helps to explore organizations growth options, addresses challenges within industry, and makes better corporate decisions. Strategy analysis is an approach to facilitating, researching, analyzing, and mapping an organization's abilities to achieve a future envisioned state based on present reality and often with consideration of the organization's processes, technologies, business development and people's capabilities.

SCANNING THE ENVIRONMENT:

PESTEL ANALYSIS:

A PESTEL analysis or PESTLE analysis (formerly known as PEST analysis) is a framework or tool used to analyze and monitor the macro-environmental factors that may have a profound impact on an organization's performance. This tool is especially useful when starting a new business or entering a foreign market. PESTEL is an acronym that stands for Political, Economic, Social, Technological, Environmental and Legal factors. PEST or PESTEL analysis is a simple and effective tool used in situation analysis to identify the key external (macro environment level) forces that might affect an organization. These forces can create both opportunities and threats for an organization. Therefore, the aim of doing PEST is to:

- Find out the current external factors affecting anorganization.
- Identify the external factors that may change in thefuture.
- To exploit the changes (opportunities) or defend against them (threats) better than competitors woulddo.

The outcome of PEST is an understanding of the overall picture surrounding the company.
Political Factors: These factors are all about how and to what degree a government intervenes intheeconomyoracertainindustry.Basicallyalltheinfluencesthatagovernmenthasonthebusiness could be classified here. This can include government policy, political stability or instability, corruption, foreign trade policy, tax policy, labor law, environmental law and trade restrictions. Furthermore, the government may have a profound impact on a nation's education system, infrastructure and health regulations. These are all factors that need to be taken into account when assessing the attractiveness of a potential market.

Economic Factors: Economic factors are determinants of a certain economy's performance. Factors include economic growth, exchange rates, inflation rates, interest rates, disposable income of consumers and unemployment rates. These factors may have a direct or indirect long term impact on a company, since it affects the purchasing power of consumers and could possibly change demand/supply models in the economy. Consequently it also affects the way companies' price their products andservices.

Social Factors: This dimension of the general environment represents the demographic characteristics, norms, customs and values of the population within which the organization operates. This includes population trends such as the population growth rate, age distribution, income distribution, career attitudes, safety emphasis, health consciousness, lifestyle attitudes and cultural barriers. These factors are especially important for marketers when targeting certain customers. In addition, it also says something about the local workforce and its willingness to work under certainconditions.

Technological Factors: These factors pertain to innovations in technology that may affect the operations of the industry and the market favorably or unfavorably. This refers to technology incentives, the level of innovation, automation, research and development

(R&D) activity, technological change and the amount of technological awareness that a market possesses. These factors may influence decisions to enter or not enter certain industries, to launch or not launch certain products or to outsource production activities abroad. By knowing what is going on technology-wise, you may be able to prevent your company from spending a lot of money on developing a technology that would become obsolete very soon due to disruptive technological changes elsewhere.

Environmental Factors: Environmental factors have come to the forefront only relatively recently. They have become important due to the increasing scarcity of raw materials, pollution targets and carbon footprint targets set by governments. These factors include ecological and environmental aspects such as weather, climate, environmental offsets and climate change which may especially affect industries such as tourism, farming, agriculture and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer. This has led to many companies getting more and more involved in practices such as corporate social responsibility (CSR) andsustainability.

Legal Factors: Although these factors may have some overlap with the political factors, they include more specific laws such as discrimination laws, antitrust laws, employment laws, consumer protection laws, copyright and patent laws, and health and safety laws. It is clear that companies need to know what is and what is not legal in order to trade successfully and ethically. If an organization trades globally this becomes especially tricky since each country has its own set of rules and regulations. In addition, you want to be aware of any potential changes in legislation and the impact it may have on your business in the future. Recommended is to have a legal advisor or attorney to help you with these kinds of things.

PEST analysis is also done to assess the potential of a new market. The general rule is that the more negative forces are affecting that market the harder it is to do business in it. The difficulties that will have to be dealt with significantly reduce profit potential and the firm can simply decide not to engage in any activity in that market.

PORTER'S FIVE FORCES OF COMPETITIVE POSITION ANALYSIS:

Porter's Five Forces of Competitive Position Analysis were developed in 1979 by Michael E Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a businessorganization.

This theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. Porter's five forces help to identify where power lies in a business situation. This is useful both in understanding the strength of an organization's current competitive position, and the strength of a position that an organization may look to move into.

Strategic analysts often use Porter's five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes.

The five forces are:

1. **Supplier power.** An assessment of how easy it is for suppliers to drive up prices. This is driven by the: number of suppliers of each essential input; uniqueness of their product or service; relative size and strength of the supplier; and cost of switching from one supplier toanother.
2. **Buyer power.** An assessment of how easy it is for buyers to drive prices down. This is driven by the: number of buyers in the market; importance of each individual buyer to the organization; and cost to the buyer of switching from one supplier to another. If a business has just a few powerful buyers, they are often able to dictateterms.
3. **Competitive rivalry**. The main driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.
4. **Threat of substitution.** Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases. This reduces both the power of suppliers and the attractiveness of themarket.
5. **Threat of new entry.** Profitable markets attract new entrants, which erodes profitability. Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability will decline to a competitive rate.

Arguably, regulation, taxation and trade policies make government a sixth force for many industries. Five forces analysis helps organizations to understand the factors affecting profitability in a specific industry, and can help to inform decisions relating to: whether to enter a specific industry; whether to increase capacity in a specific industry; and developing competitive strategies.

ENVIRONMENT THREAT AND OPPORTUNITY PROFILE:

It is a technique to structure the **environment** for fundamental business analysis. It was developed by Glueck. ETOP is summarized depiction of the environmental actors and their impact on the organization. The preparation of ETOP involves dividing the environment into different sectors and then analyzing the impact of each factor of the organization. A detailed ETOP subdivides each environment sector into sub factor and then the impact of each sub factor on the organization and is described in a form of statement. A summary of ETOP shows only the major factors. ETOP is the most useful way of structuring the result of environmentalanalysis.

Environmental Factors	**Degree of Importance**			**Degree of Impact**		
	High(3)	**Medium(2)**	**Low(1)**	**High ±3**	**Medium ±2**	**Low ±1**
Economic						
Political – Legal						
Technological						
Socio-cultural						
Competitive						

The strategic managers should keep focus on the following dimensions,

1. Issue Selection: Focus on issues, which have been selected, should not be missed since there is a likelihood of arriving at incorrect priorities. Some of the impotent issues may be those related to market share, competitive pricing, customer preferences, technological changes, economic policies, competitive trends,etc.

2. Accuracy of Data: Data should be collected from good sources otherwise the entire process of environmental scanning may go waste. The relevance, importance, manageability, variability and low cost of data are some of the important factors, which must be kept infocus.

3. Impact Studies: Impact studies should be conducted focusing on the various opportunities and threats and the critical issues selected. It may include study of probable effects on the company's strengths and weaknesses, operating and remote environment, competitive position, accomplishment of mission and vision etc. Efforts should be taken to make assessments more objective wherever possible.

4. Flexibility in Operations: There are number of uncertainties exist in a business situation and so a company can be greatly benefited buy devising proactive and flexible strategies in their plans, structures, strategy etc. The optimum level of flexibility should bemaintained.

Some of the key elements for increasing the flexibility are as follows:

(a) The strategy for flexibility must be stated to enable managers adopts it during unique situations.

(b) Strategies must be reviewed and changed ifrequired.

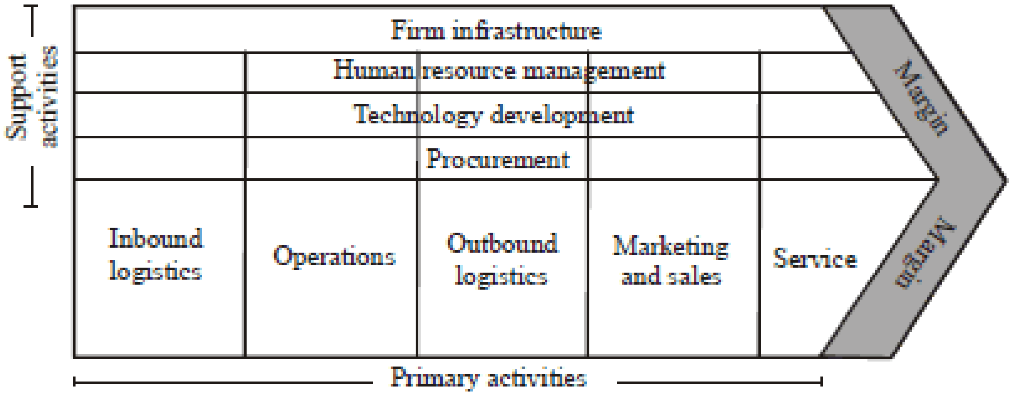
(c) Exceptions to decided strategies must be handled beforehand. This would enable managers to violate strategies when it isnecessary.

(d) Flexibility may be quite costly for an organization in terms of changes and compressed plans; however, it is equally important for companies to meet urgentchallenges.

VALUE CHAIN ANALYSIS:

Value chain analysis is a process of dividing various activities of the business in primary and support activities and analyzing them, keeping in mind, their contribution towards value creation to the final product. And to do so, inputs consumed by the activity and outputs generated are studied, so as to decrease costs and increase differentiation.

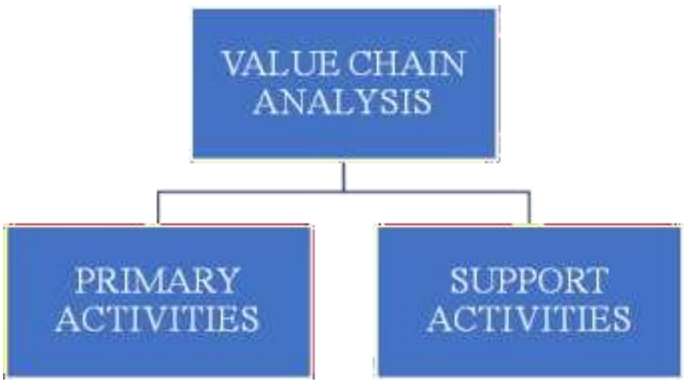
Value chain analysis is used as a tool for identifying activities, within and around the firm and relating these activities to an assessment of competitive strength.



As shown above, Michael Porter classified the entire value chain into nine activities which are interrelated to one another. While primary activities include the activities that are performed to satisfy external demand, secondary activities are those which are performed to satisfy internal requirements.

Classification of Value Chain Analysis:

Value Chain Analysis is grouped into primary or line activities, and support activities discussed as under:



1. **Primary Activities**: The functions which are directly concerned with the conversion of input into output and distribution activities are called primary activities. Itincludes:
   - **Inbound Logistics**: It includes a range of activities like receiving, storing, distributing, etc. which make available goods and services for operational

processes. Some of those activities are material handling, transportation, stock control,etc.

- **Operations**: The activity of transforming input raw material to final product ready for sale is termed as operation. Machining, assembling, packaging are the activities covered under operations.
- **Outbound Logistics**: As the name suggests, the activities that help in collecting, storage and delivering the product to the customer is outboundlogistics.
- **Marketing and Sales**: All the activities like advertising, promotion, sales, marketing research, public relations, etc. performed to make the customer aware of the product or service and create demand for it, comes undermarketing.
- **Service**: Service means service provided to the customer so as to improve or maintain the value of the product. It includes financing service, after-sales service and soon.

2. **Support Activities**: Those activities which assist primary activities in accomplishment are support activities. Theseare:
    - **Procurement**: This activity serves the organization, by supplying all the necessary inputs like material, machinery or other consumable items, that required by the organization for performing primaryactivities.
    - **Technology Development**: At present, technology development requires heavy investment, which takes years for research and development. However, its benefits can be enjoyed for several years and by a multitude of users in theorganization.
    - **Human Resource Management**: It is the most common plus important activitywhich excel all primary activities of the organization. It encompasses overseeing the selection, retention, promotion, transfer, appraisal and dismissal of staff.
    - **Infrastructure**: This is the management system, which provides, its services to the whole organization and includes planning, finance, information management, quality control, legal, government affairs,etc.

In the fast paced world, the main focus of the organization is customer satisfaction, and value chain analysis is the technique that helps to attain that level. Under this, each business activity is considered as essential, which contributes value and is constantly analyzed, to increase value as regards the cost incurred.

ORGANIZATIONAL CAPABILITY PROFILE (OCP):

OCP is summarized statement which provides overview of strength and weakness in key result areas likely to affect future operation of the organization. Information in this profile may be presented in qualitative terms or quantitative terms. After the preparation of OCP, the organization is in a position to assess its relative strength and weaknesses through its competitors. If there is any gap in area, suitable action may be taken to overcome that.OCP shows the company's capacity. OCP tells about company's potential and capability. OCP tells what company cando.

The organizational capability profile is drawn in the form of a chart. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub factors along a scale ranging from values of -5 to +5.

Capability Factors	Weakness (-5)	Normal (0)	Strength (+5)
Financial	-5		
Technical		0	
Human Resource	-5		
Marketing			5
R&D		0	

SWOT ANALYSIS:

SWOT Analysis is a strategic management tool that assists an enterprise in discerning their internal Strengths, and Weaknesses, and external Opportunities, and Threats, to determine its competitive position in the market. The SWOT Analysis helps in ascertaining the factors that influences the efficiency and effectiveness of any product, project, or business entity. These are explained as under:

SWOT Matrix

Strengths	Weaknesses
Opportunities	Threats

Strengths: The strengths of a company are the core competencies, in which the business has an edge over its competitors. It covers aspects such as:

- Strong financial condition
- A large customerbase.
- Strong brand name or a uniqueproduct
- Latest technology orpatents
- Influential advertising andpromotion.
- CostAdvantage
- Quality in product and customerservice.

Weaknesses: Weaknesses can be described as the areas of limitations of the business that hinders the growth of the company and even leads to a strategic disadvantage. These are the areas which need improvement to perform competitively. It encompasses:

- Obsolete facilities and outdatedtechnology.
- The unit cost of a product is higher than the competitors.
- No or less internal control.
- Less quality in products and servicesoffered.
- Weak brand image.
- Financial condition is not verysound.
- Underutilization of plantcapacity.
- Lack of major skills or competencies, and intellectualcapital.

Opportunities: Opportunities can be understood as the condition, which is favorable or beneficial to the organization in the business environment that the business could exploit to gain an advantage. These are:

- Looking for areas of development, by utilizing skills and technology to enter new markets
- Adding new products to the existing product line to increase customerbase.
- Forward and backward integration.
- Acquiring rivals businesses.
- Joint ventures, mergers and alliances to increase marketcoverage.

Threats: Threat implies an adverse condition which can lead the business enterprise to losses, and can also harm the overall position and reputation of the enterprise. It entails:

- A downtrend in marketgrowth.
- A new entrant to themarket.
- Substitute products that can decreasesales.
- Increasing the bargaining power of customers andsuppliers.
- New regulatory requirements
- Changes in a demographic environment that will decrease demand for firm'sproduct.

Importance of SWOT Analysis:

- **Logical framework of analysis**: SWOT Analysis equips the management with an insightful framework for eliminating issues in a systematic manner that can influence the condition of business, formulation of various strategies and theirselection.
- **Presents a comparative report**: The analysis facilitates in presenting systematic information about the internal and external environment. This helps in making a comparison of external opportunities and threats with internal strengths and weaknesses, as well as reconciling the internal and external business environment, to help the managers in choosing the best strategy, by considering variouspatterns.
- **Strategy Identification**: Every organization has its strengths weakness, opportunities and threats. So, the SWOT Analysis acts as a guide to the strategist to reckon the exact position, i.e. where the business stands, so as to identify the primary objective of the strategy under consideration.

SWOT Analysis helps the company's management in designing a business model specific to the firm. The model perfectly suits or aligns the company's resources or competencies, as per the needs of the business environment, wherein the organization operates and helps in gaining a competitive advantage over the rivals. This will increase the profitability, market share and the chances to survive in the dynamic competitive business environment.

BLOCK-3 BUSINESS CONTINUITY PLAN

UNIT-3 FORMULATION OF COMPETITIVE STRATEGIES

Strategic alternatives at corporate level - concept of grand strategies - Strategic choice models - Strickland's Grand Strategy - Selection Matrix, Model of Grand Strategy Clusters, BCG, GE Nine Cell Matrix - Strategic alternatives at business level.

GRAND STRATEGIES - CONCEPT

The **Grand Strategies** are the corporate level strategies designed to identify the firm's choice with respect to the direction it follows to accomplish its set objectives. Simply, it involves the decision of choosing the long term plans from the set of available alternatives. The Grand Strategies are also called as **Master Strategies** or **Corporate Strategies**.

Strategic Choice:

Strategic Choice involves a whole process through which a decision is taken to choose a particular option from various alternatives. There can be various methods through which the final choice can be selected upon. Managers and decision makers keep both the external and internal environment in mind before narrowing it down to one.

Factors affecting strategic choice:

- Environmental constraints.
- Internal organizations and management power relationships.
- Values and preferences.
- Management`s attitude towards risk.
- Impact of past strategy.
- Time constraints- time pressure, frame horizon, timing of decision.
- Information constraints.
- Competitor's reaction.

STRICKLAND'S GRAND STRATEGY SELECTION MATRIX

The Grand Strategy Selection Matrix developed by Strickland is one helpful tool in the development of talent that is likely to overcome weaknesses, build on existing strengths, avert future threats & seize future opportunities. It is used in strategic business planning.

It focuses on two key issues:

1) Should strategists devote attention to overcoming present weakness or to building on present strengths?

2) Or it should strategists concentrate efforts inside the organization or outside it?

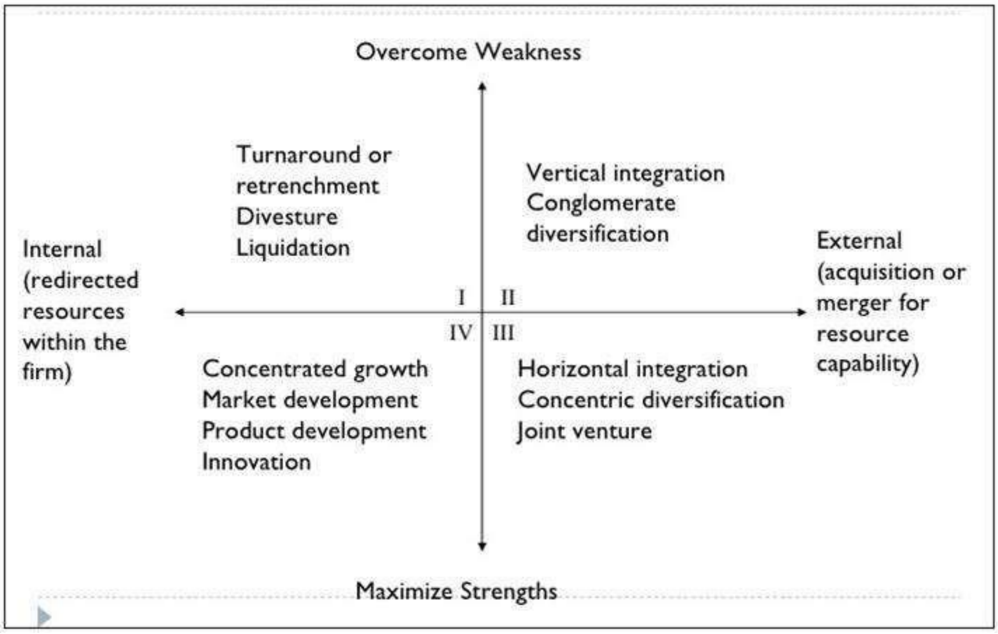
Each Alternative Grand strategy can be translated into talent development terminology.

The basic idea underlying the matrix is that two variables are of central concern in the strategy selection process:

1. The principal purpose of the grand strategy and

2. The choice of an internal or external emphasis for growth and/or profitability.

It is valuable to note, that even early approaches to strategy selection were based on matching a concern for internal versus external growth with a principal desire to overcome weakness or maximize strength. The same concerns led to the development of the Grand Strategy Selection Matrix.

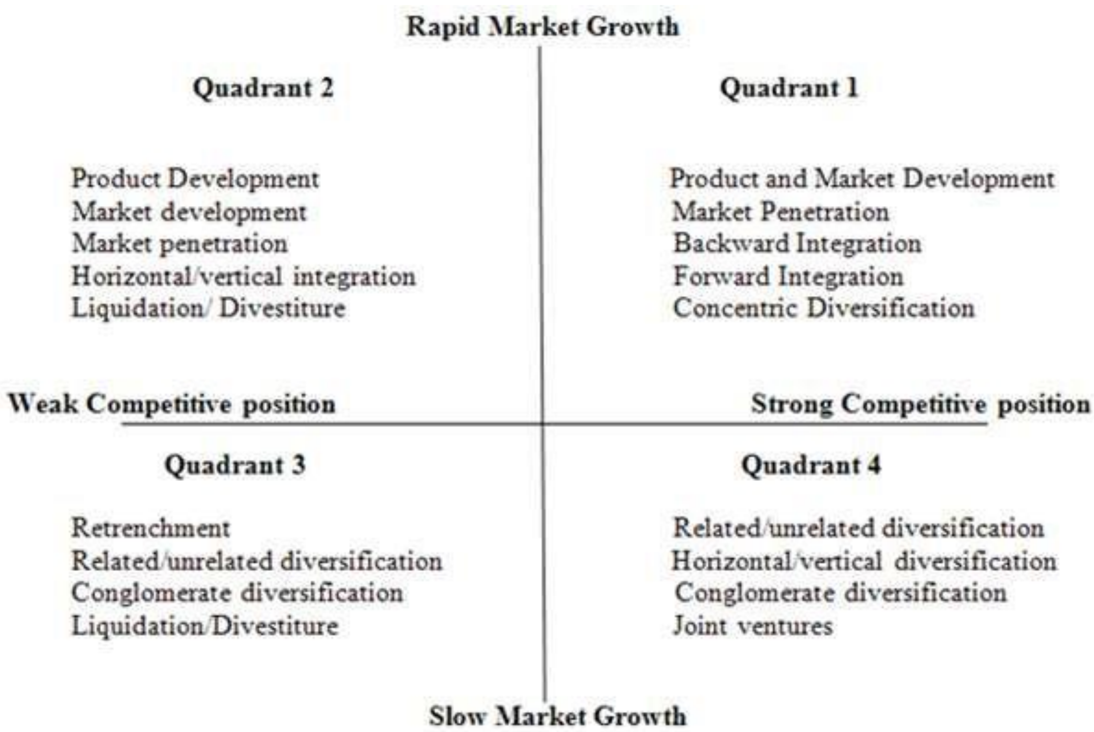


A firm in **Quadrant I** often views itself as overly committed to a particular business with limited growth opportunities or involving high risks because the company has “all its eggs in one basket”. One reasonable solution is vertical integration, which enables the firm to reduce risk by reducing uncertainty either about inputs or about access to customers. Alternatively, a firm can choose conglomerate diversification, which provides profitable alternatives for investment without diverting management attention from the original business. However, the external orientation to overcoming weaknesses usually results in the most costly grand strategies. The decision to acquire a second business demands both large initial time investments and sizable financial resources. Thus, strategic managers considering these approaches must guard against exchanging one set of weaknesses for another. A more conservative approach to overcoming the weakness is found in

Quadrant II. Firms often choose to redirect resources from one business activity to another within the company. While this approach does not reduce the company's commitment to its basic mission, it does reward success and enables further development of proven competitive advantages. The least disruptive of the Quadrant II strategies is retrenchment, the pruning of the current business activities. If weaknesses arose from inefficiencies, retrenchment can actually serve as a turnaround strategy, meaning the business gains new strength by streamlining its operations and eliminating waste. However, when the weaknesses are a major obstruction to success in the industry, and when the costs of overcoming the weaknesses are unaffordable or are not justified by a cost benefit analysis, then eliminating the business must be considered. Divestiture offers the best possibility for recouping the company's investment, but even Liquidation can be an attractive option when the alternatives are an unwarranted drain on organizational resources or bankruptcy.

A common business adage states that a company should build from strength. The premise is that growth and survival depend on an ability to capture a market share that is large enough for essential economies of scale. If a firm believes profitability will derive from this approach and prefers an internal emphasis for maximizing strengths, four alternative grand strategies hold considerable promise. As shown in **Quadrant III,** the most common approach is concentration on the business, that is, market penetration. The business then selects this strategy is strongly committed to its current products and markets. It will strive to solidify its position by reinvesting resources to fortify its strength. Two alternative approaches are market development and product development. With either of these strategies the business attempts to broaden its operations. Market development is chosen if strategic managers feel that existing products would be well received by new customer groups. Product development is preferred when existing customers are believed to have an interest in products related to the firm's current lines. This approach may also be based on special technological or other competitive advantages. A final alternative for Quadrant III firms is innovation. When the business strength's are in creative product design or unique production technologies, sales can be stimulated by accelerating perceived obsolescence. This is the principle underlying an innovative grand strategy.

Maximizing a business's strength by aggressively expanding its basis of operations usually requires an emphasis in selecting grand strategy. Preferred options here are shown in **Quadrant IV**. Horizontal integration is attractive because it enables a firm to quickly increase output capability. The skills of the original business's managers are often critical in converting new facilities into profitable contributors to the parent company; this expands a fundamental competitive advantage of the firm-management. Concentric diversification is a good second choice for similar reasons. Because the original and newly acquired businesses are related, the distinctive competencies of the diversifying firm are likely to facilitate a smooth, synergistic, and profitable expansion. The final option for increasing resource capability through external emphasis is a joint venture. This alternative allows a business to extend its strengths into competitive arenas that it would be hesitant to enter alone. A partner's production, technological, financial, or marketing capabilities can significantly reduce financial investment and increase the profitability of success to the point that formidable ventures become attractive growth alternatives.



A business's situation is defined in terms of the growth rate of the general market and competitive position in that market. When these factors are considered simultaneously, a business can be broadly categorized into four quadrants:

- Strong competitive position in a rapidly growing market,
- Weak position in rapidly growing market,
- Weak position in a slow-growth market,
- Strong position in a slow-growth market.

Each of these quadrants suggests a set of promising possibilities for selection of grand strategy.

Firms in **Quadrant I** are in an excellent strategic position. One obvious grand strategy for such firms is continued concentration on their current business as it is presently defined. Because consumers seem satisfied with the firm's current strategy, it would be dangerous to shift notably from the established competitive advantages. However, if the businesses have the resources that exceed the demands of the concentration strategy, it should consider vertical integration. Either forward or backward integration helps a business protect its profit margins and market share by ensuring better access to either consumers or material inputs. Finally quadrant I firm might be wise to consider concentric diversification to diminish the risks associated with a narrow product or service line; with this strategy, heavy investment in the company's basic area of proven ability continues.

Quadrant II: In a rapidly growing market, even a small or relatively weak business is often able to find a profitable niche. Thus, formulation or reformulation of a concentration strategy is usually the first option to consider. However, if the firm lacks either a critical competitive element or sufficient economies of scale to achieve competitive cost efficiencies, then a grand strategy that directs company efforts toward horizontal integration is often a desirable alternative. A final pair of option involves deciding to stop competing in the market or product area. A multiproduct firm may conclude that the goals of its mission are most likely to be achieved if this business is dropped through divestiture. Not only does this grand strategy eliminate a drain on resources, it may also provide additional funds to promote other business activities. As an option of last resort, a firm may decide to liquidate the business. In practical terms this means that the business cannot be sold as a going concern and is at best worth only the value of its tangible assets.

The decision to liquidate is an undeniable admission of failure by firm's strategic management and is thus often delayed – to the further detriment of the company. Strategic managers tend to resist divestiture because it is likely to jeopardize their control of the firm and perhaps even their jobs. By the time the desirability of divestiture is acknowledged, the business has often deteriorated to the point of failing to attract potential buyers as a business. The consequences of such delays are financially disastrous for the owners of the firm, because the value of a going concern is many times greater than simple asset value. Strategic managers who have business in the position of **Quadrant III** and feel that continued slow market growth and a relatively weak competitive position are going to continue will usually attempt to decrease their resource commitment to that business. Minimal withdrawal is accomplished through retrenchment; this strategy has the side benefits of making resources available for other investments and of motivating employees to increase their operating efficiency. An alternative strategy is to divert resources for expansion through investment in other businesses. This approach typically involves either concentric or conglomerate diversification, because the firm usually wants to enter more promising arenas of competition than firms of integration or development would allow. The final options for quadrant III businesses are divestiture, if an optimistic buyer can be found, and liquidation.

Quadrant IV businesses have a basis of strength from which to diversify into more promising growth areas. These businesses have characteristically high cash flow levels and limited internal growth needs. Thus, they are in an excellent position for concentric diversification into ventures that utilize their proven business acumen. A second choice is conglomerate diversification, which spreads investment risk and does not divert managerial attention from the present business. The final option is joint ventures, which are especially attractive to multinational firms. Through joint venture a domestic business can gain competitive advantages in promising new fields while exposing itself to limited risks.

Grand strategy clusters are a **model** that focuses on each **strategy** as it would work within the **strategic** plans of a company. These **strategies** then are clustered to shape the business direction and focus on the long term goals of the company.

BCG matrix is a matrix used by large corporations to decide the ratio in which resources are allocated among various business segments. Similar to this, **GE matrix** also helps firms decide their strategy with respect to different product lines, i.e. the product they should add in the range of products offered by them and in which opportunity the firm should invest.

Both BCG matrix and GE matrix are two-dimensional models, which are used by big business houses, having several product lines and business units. The latter was developed as an improvement over the former, and so overcomes many limitations.

DEFINITION OF BCG MATRIX

BCG Matrix or otherwise known as **Boston Consulting Group growth share matrix** is used to represent the company's investment portfolio.

Large corporations usually face problems in allocating resources amongst various units and product lines. To cope with this problem, **in 1970, Bruce Henderson** designed a matrix for the Group called as BCG matrix. It is based on two factors which are:

- The growth rate of the product-market.
- Market share held by the company in the respective market, in comparison to its competitors.

BCG Matrix helps the corporation in analyzing the product lines or business units, for prioritizing them and allocating resources. The model aims at identifying the problem of resource deployment, among different business segments. In this approach, various businesses of a company are classified on a two-dimensional grid.

BCG – Growth Share matrix

The vertical axis shows market growth rate, which is a measure of how attractive the market is?

The horizontal axis indicates relative market shares, which is an indicator of how strong the company's position is?

With the help of this matrix, the company can ascertain four kind of strategic business unit or products as follows:

Stars: It represents those products which are growing at a faster rate and requires the huge investment to maintain their position in the market.

Cash Cows: The products whose growth is low but holds high market share. They reap a lot of cash for the company and do not require finance for expansion.

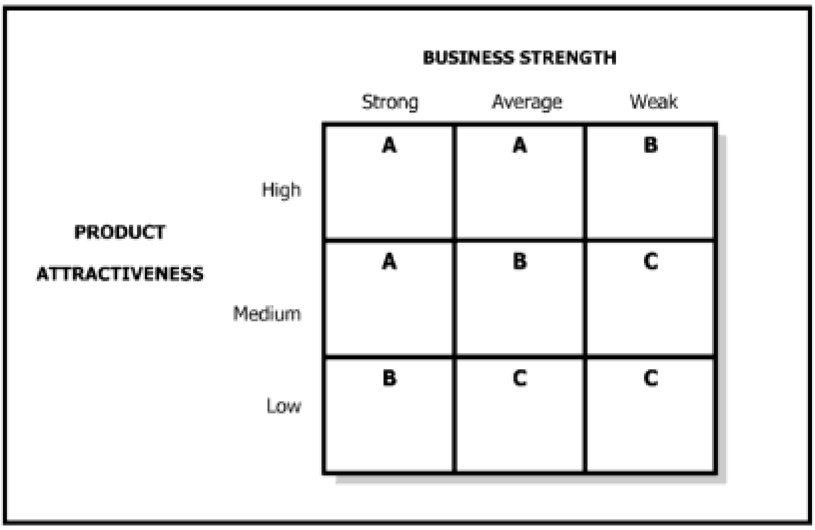
Question Marks: It indicates those products which possess a low market share in a high-growth market and so need heavy investment to hold their share in the market, but do not generate cash in the same proportion.

Dogs: Dogs represents those products, which neither have a high growth rate nor high market share. Such products generate enough cash to maintain themselves but will not survive in the long term.

DEFINITION OF GE MATRIX

GE matrix, alternately known as **General Electric Model is a business planning matrix**. The model is inspired by traffic lights which are used to manage traffic at crossings, wherein green light says go, yellow says caution and Red say stop.

The matrix comprises of nine cells, with two major dimensions, i.e. **business strength and industry attractiveness**. Business strength is influenced by market share, brand image, profit margins, customer loyalty, and technological capability and so on. On the other hand, industry attractiveness is influenced by drivers such as pricing trends, economies of scale, market size, market growth rate, segmentation, distribution structure, etc.



GE – Portfolio matrix

When various product lines or business units are drawn on the matrix, strategic choices can be made, on the basis of their position in the matrix. Product falling into green section reflects the business is in the good position, but product lying into yellow section needs the managerial decision for making choices and the product in the red zone, are dangerous as they will lead the company to losses.

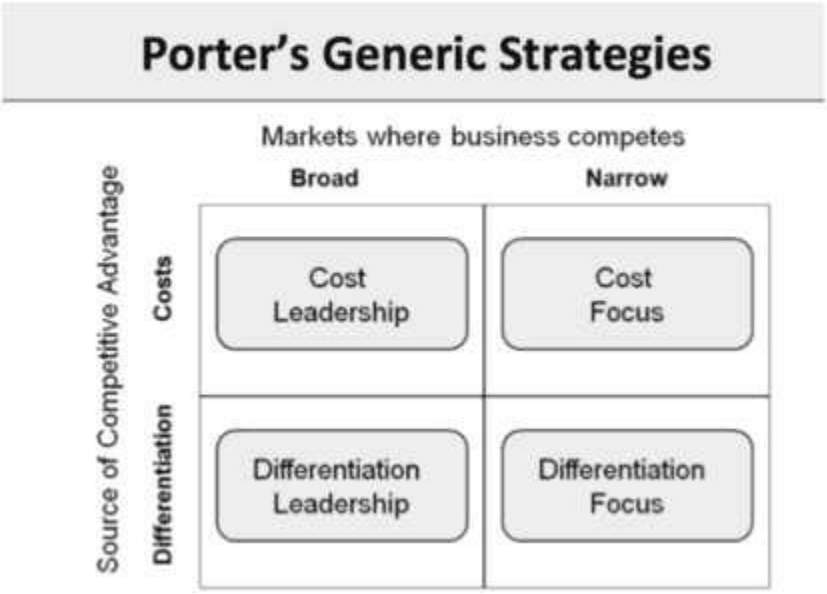
PORTER'S MODEL OF GENERIC STRATEGIES FOR COMPETITIVE ADVANTAGE

Porter suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The strategies relate to the extent to which the **scope** of business activities are narrow versus broad and the extent to which a business seeks to differentiate its products.
The short video below provides an overview of Porter's Generic Strategies and there are some additional study notes below the video.

The key strategic challenge for most businesses is to find a way of achieving a sustainable competitive advantage over the other competing products and firms in a market.

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

The four strategies are summarized in the figure below:



The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

Cost Leadership: With this strategy, the objective is to become the **lowest-cost producer in the industry**. The traditional method to achieve this objective is to produce on a large scale which enables the business to exploit economies of scale.

Why is cost leadership potentially so important? Many (perhaps all) market segments in the industry are supplied with the emphasis placed on minimizing costs. If the achieved selling price can at least equal (or near) the average for the market, then the lowest-cost producer will (in theory) enjoy the best profits.

This strategy is usually associated with large-scale businesses offering "standard" products with relatively **little differentiation** that are readily acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximize sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

A strategy of cost leadership requires close cooperation between all the functional areas of a business. To be the lowest-cost producer, a firm is likely to achieve or use several of the following:

- High levels of productivity
- High capacity utilization
- Use of bargaining power to negotiate the lowest prices for production inputs
- Lean production methods (e.g. JIT)
- Effective use of technology in the production process
- Access to the most effective distribution channels

Cost Focus: Here a business seeks a lower-cost advantage in just one or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's".

Differentiation Focus: In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers.

The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants.

Differentiation focus is the classic niche marketing strategy. Many small businesses are able to establish themselves in a niche market segment using this strategy, achieving higher prices than un-differentiated products through specialist expertise or other ways to add value for customers. There are many successful examples of differentiation focus. A good one is Tyrell’s Crisps which focused on the smaller hand-fried, premium segment of the crisps industry.

Differentiation Leadership: With differentiation leadership, the business targets much larger markets and aims to achieve competitive advantage through differentiation across the whole of an industry. This strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product - often to reflect the higher production costs and extra value-added features provided for the consumer.

Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products. There are several ways in which this can be achieved, though it is not easy and it requires substantial and sustained marketing investment. The methods include:

- Superior product quality (features, benefits, durability, reliability)
- Branding (strong customer recognition & desire; brand loyalty)
- Industry-wide distribution across all major channels (i.e. the product or brand is an essential item to be stocked by retailers)
- Consistent promotional support – often dominated by advertising, sponsorship etc

Great examples of a differentiation leadership include global brands like Nike and Mercedes. These brands achieve significant economies of scale, but they do not rely on a cost leadership strategy to compete. Their business and brands are built on persuading customers to become brand loyal and paying a premium for their products.

WHAT ARE THE SIMPLE RULES THAT GUIDE OUR STRATEGIES?

The **simple rules** provide the guidelines within which managers can pursue opportunities. **Strategy**, then, consists of the unique set of strategically significant processes and the handful of **simple rules** that guide them. The basic idea is that when strategizing, large organizations spend too much time discussing the 'what' (climate change? Gender? Education? Livelihoods?), and too little on the 'how'. And within the 'how', the most important bit is probably the default questions and instincts that govern an organization's daily decision-making, rather than the long-winded strategy documents that no-one reads.

'Strategy as Simple Rules', by Kathleen M. Eisenhardt and Donald Sull, looks at the private sector, and argues that 'In a period of predictability and focused opportunities, a company should have more rules in order to increase efficiency. When the landscape becomes less predictable and the opportunities more diffuse, it makes sense to have fewer rules in order to increase flexibility.' or more pithily 'when business becomes complicated, strategy should be simple.'

Simple rules, which grow out of experience, fall into five broad categories: how- to **rules**, boundary conditions, priority **rules**, timing **rules**, and exit **rules**. Companies with **simple-rules strategies** must follow the **rules** religiously and avoid the temptation to change them too frequently.

- **How-to rules**: Everyone must be passionately committed to social justice, and supporting the agency of poor/excluded people and communities
- **Boundary rules**: Any investment in advocacy requires a realistic chance of winning something, be it a policy change, a shift in attitudes, or getting an issue onto the public agenda
- **Priority rules**: How many people will benefit? How many of them will belong to poor/excluded people and communities? Will the changes be sustainable?
- **Timing rules**: What critical juncture or political/organizational window of opportunity will the advocacy take advantage of?
- **Exit rules**: Who will decide on exit? On what evidence? How will partners and communities be involved in the decision?

Thus the process used to develop simple rules matters as much as the rules themselves. Involving a broad cross-section of employees, for example, injects more points of view into the discussion, produces a shared understanding of what matters for value creation, and increases buy-in to the simple rules. Investing the time up front to clarify what will move the needles dramatically increases the odds that simple rules will be applied where they can have the greatest impact.

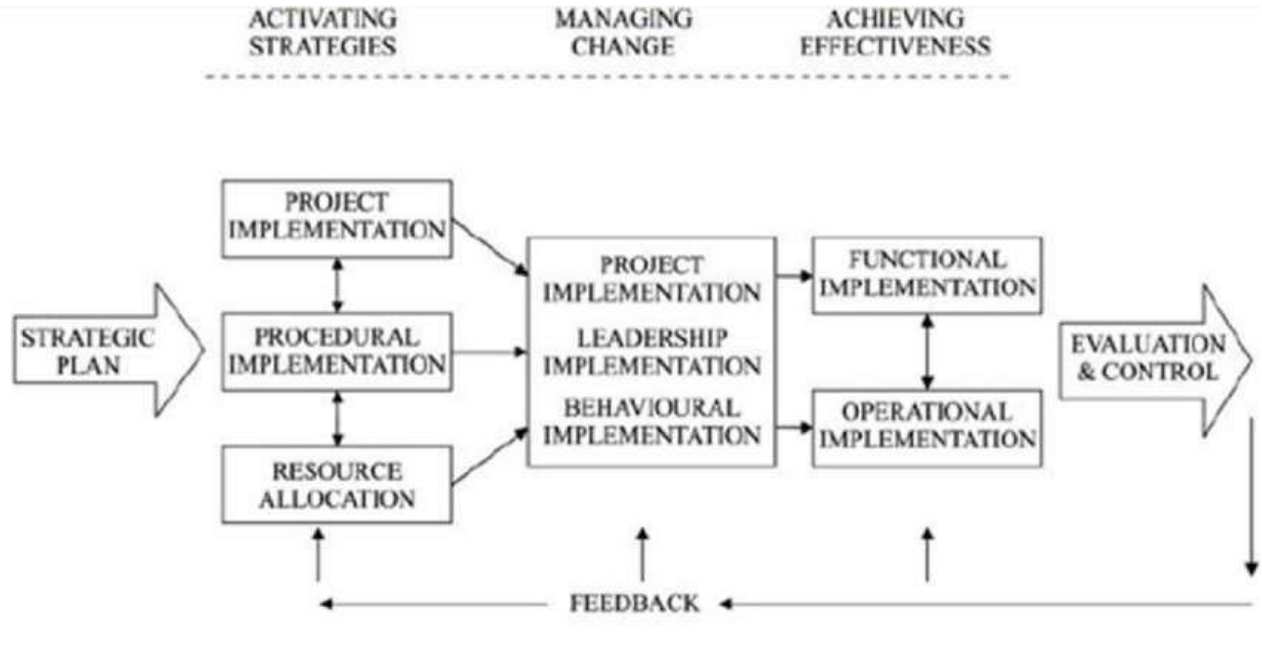
BLOCK-4 INTRODUCTION TO STRATEGIES

UNIT-4 STRATEGIC IMPLEMENTATION

Strategic Implementation: Developing short-term objectives and policies - functional tactics and rewards - Structural Implementation: an overview of Structural Considerations Behavioral Implementation: an overview of: Leadership and Corporate Culture Mc Kinsey 7-S Framework Establishing Strategic Control

STRATEGIC IMPLEMENTATION – CONCEPT:

Strategy Implementation refers to the **execution of the plans and strategies**, so as to accomplish the long-term goals of the organization. It converts the opted strategy into the moves and actions of the organization to achieve the objectives. Simply put, strategy implementation is the technique through which the firm develops, utilizes and integrates its structure, culture, resources, people and control system to follow the strategies to have the edge over other competitors in the market.



Strategy Implementation is the **fourth stage of the Strategic Management process**, the other three being a determination of strategic mission, vision and objectives, environmental and organizational analysis, and formulating the strategy. It is followed by Strategic Evaluation and Control.

Process of Strategy Implementation:

- Building an organization, that possesses the capability to put the strategies into action successfully.
- Supplying resources, in sufficient quantity, to strategy-essential activities.
- Developing policies which encourage strategy.
- Such policies and programs are employed which helps in continuous improvement.
- Combining the reward structure, for achieving the results.
- Using strategic leadership.

The process of strategy implementation has an important role to play in the company's success. The process takes places after environmental scanning, SWOT analyses and ascertaining the strategic issues.

Prerequisites of Strategy Implementation:

- **Institutionalization of Strategy**: First of all the strategy is to be institutionalized, in the sense that the one who framed it should promote or defend it in front of the members, because it may be undermined.
- **Developing proper organizational climate**: Organizational climate implies the components of the internal environment that includes the cooperation, development of personnel, the degree of commitment and determination, efficiency, etc., which converts the purpose into results.
- **Formulation of operating plans**: Operating plans refers to the action plans, decisions and the programs, that take place regularly, in different parts of the company. If they are framed to indicate the proposed strategic results, they assist in attaining the objectives of the organization by concentrating on the factors which are significant.
- **Developing proper organizational structure**: Organization structure implies the way in which different parts of the organization are linked together. It highlights the relationships between various designations, positions and roles. To implement a strategy, the structure is to be designed as per the requirements of the strategy.

- **Periodic Review of Strategy**: Review of the strategy is to be taken at regular intervals so as to identify whether the strategy so implemented is relevant to the purpose of the organization. As the organization operates in a dynamic environment, which may change anytime, so it is essential to take a review, to know if it can fulfil the needs of the organization.

Even the best-formulated strategies fail if they are not implemented in an appropriate manner. Further, it should be kept in mind that, if there is an alignment between strategy and other elements like resource allocation, organizational structure, work climate, culture, process and reward structure, then only the effective implementation is possible.

Aspects of Strategy Implementation:

- Creating budgets which provide sufficient resources to those activities which are relevant to the strategic success of the business.
- Supplying the organization with skilled and experienced staff.
- Conforming that the policies and procedures of the organization assist in the successful execution of the strategies.
- Leading practices are to be employed for carrying out key business functions.
- Setting up an information and communication system that facilitates the workforce of the organization, to perform their roles effectively.
- Developing a favorable work climate and culture, for proper implementation of the strategy.
- Strategy implementation is the time-taking part of the overall process, as it puts the formulated plans into actions and desired results.

STRUCTURAL IMPLEMENTATION – CONCEPT:

A structural implementation is nothing but arrangement of tasks and sub tasks required to implement a strategy. A Diagrammatic representation could be organizational chart but administrative mechanism provides flesh and blood to the organization structure. An organizationally structure is the outline of authority and responsibility relationship among different job positions. It is a formal arrangement of tasks and sub – tasks which are needed to implement strategies.

An organization structure has two broad dimensions; namely

1. Vertical Dimensions: The vertical structure is planned to facilitate superiors to implement control over the work of subordinates. Vertical structures are known as tall structures. Such structures are suitable for companies which produce standardized products / services on a large scale with the help of mass production systems and well established technologies. The vertical dimension is characterized by

- Specialization of tasks
- Chain of command
- Formal reporting relationships
- Grouping of individuals into departments
- Upward and downward communication

2. Horizontal Dimensions: The horizontal dimension is designed to make certain cooperation and coordination among employees working at the same level of authority. Horizontal structures are also known as flat structures. Such structures are more vital for companies making differentiated products. Medium sized manufacturing and service enterprises and non-profit organization which present specific social services are examples of these organizations. The main characteristics of horizontal dimensions are

- Sharing of tasks
- Sharing of information
- Decentralized decision making
- Focus on learning

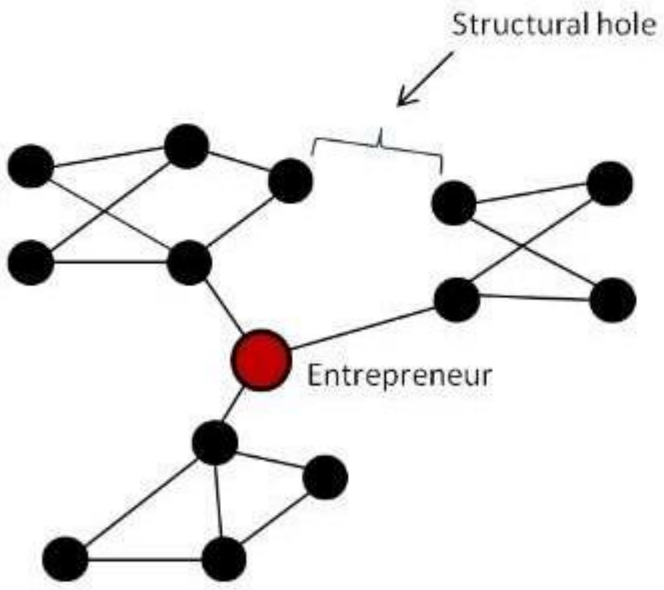
Types of Organization Structure:

The main types of organizational structures are given below:

1. Entrepreneurial Structure: The entrepreneurial structure is the most basic and the simplest type of organizational structure. This structure is suitable for an organization that is owned and managed by one person. Such an organization is typically a single product firm that serves a local market.

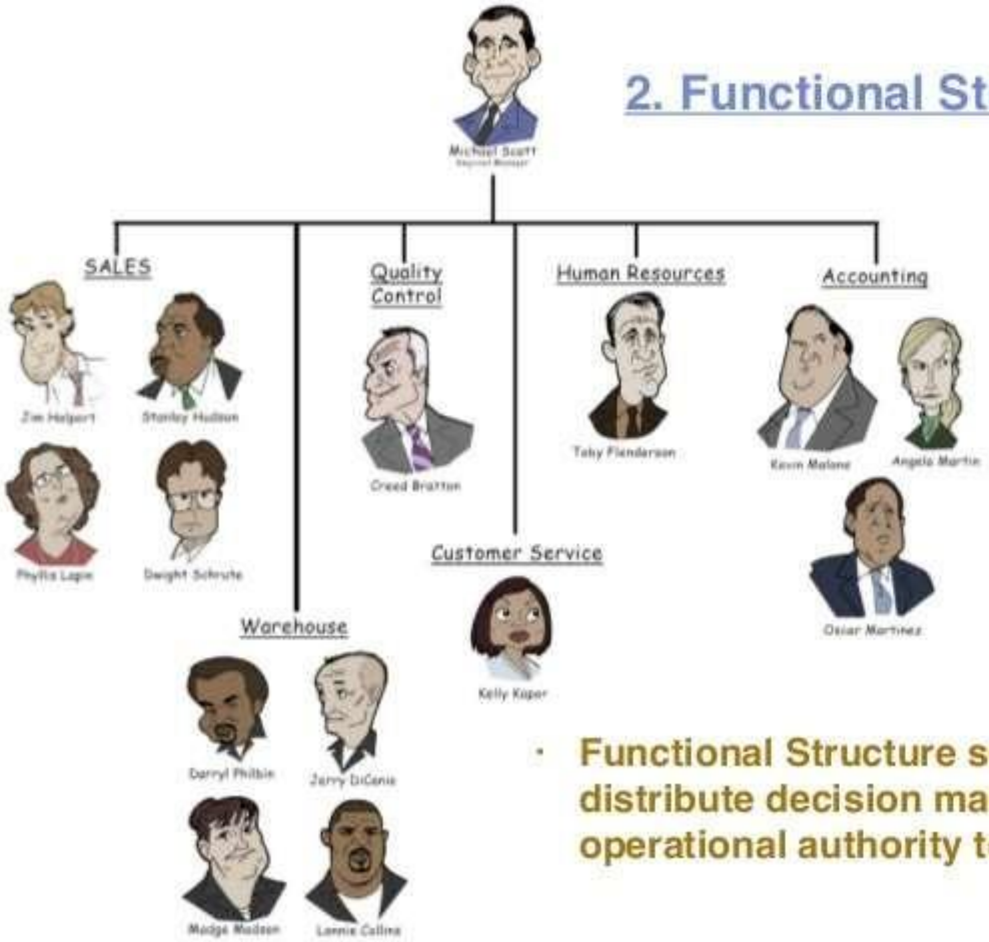
1. Entrepreneurial Structure

- Elementary form of structure
- Organization owned and managed by one person
- Serving single business, product or serve local markets
- Owner looks after all decisions, day to day operations of strategic nature.



2. Functional Structure: The expansion into the same line of business necessitates specialization of tasks and delegation of authority to heads of different functional areas. Functional structure is suitable for medium sized firms having limited number of products. Grouping of activities on the basis of functions performed for strategic implementation creates functional structures. For example, production, marketing, finance and personnel are the basic functions in a manufacturing organization. The process of functional differentiation may continue through successive level in the hierarchy.

2. Functional Structure



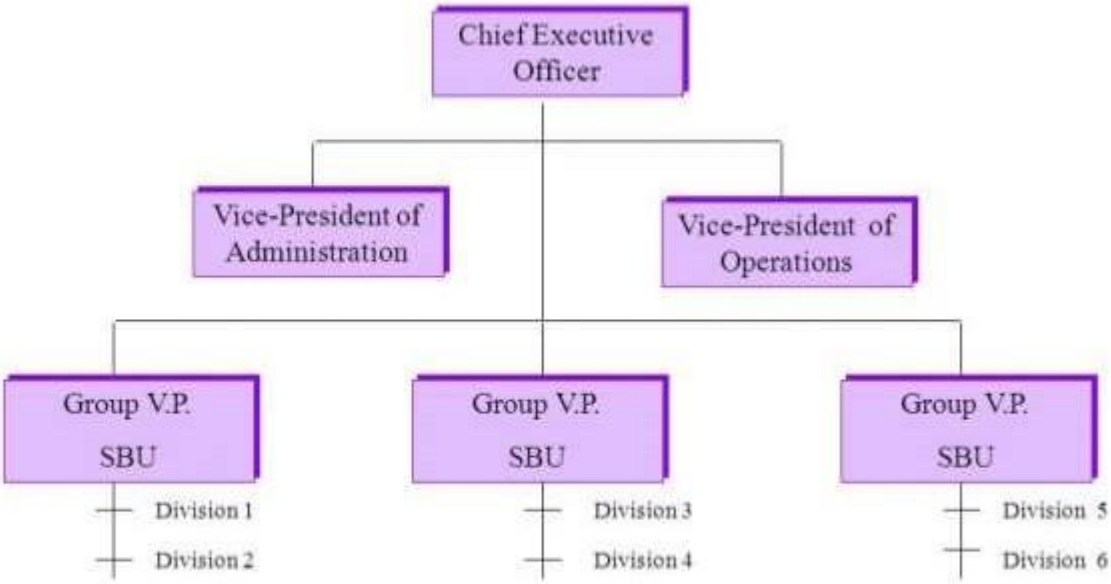
- **Functional Structure seeks to distribute decision making and operational authority towards each.**

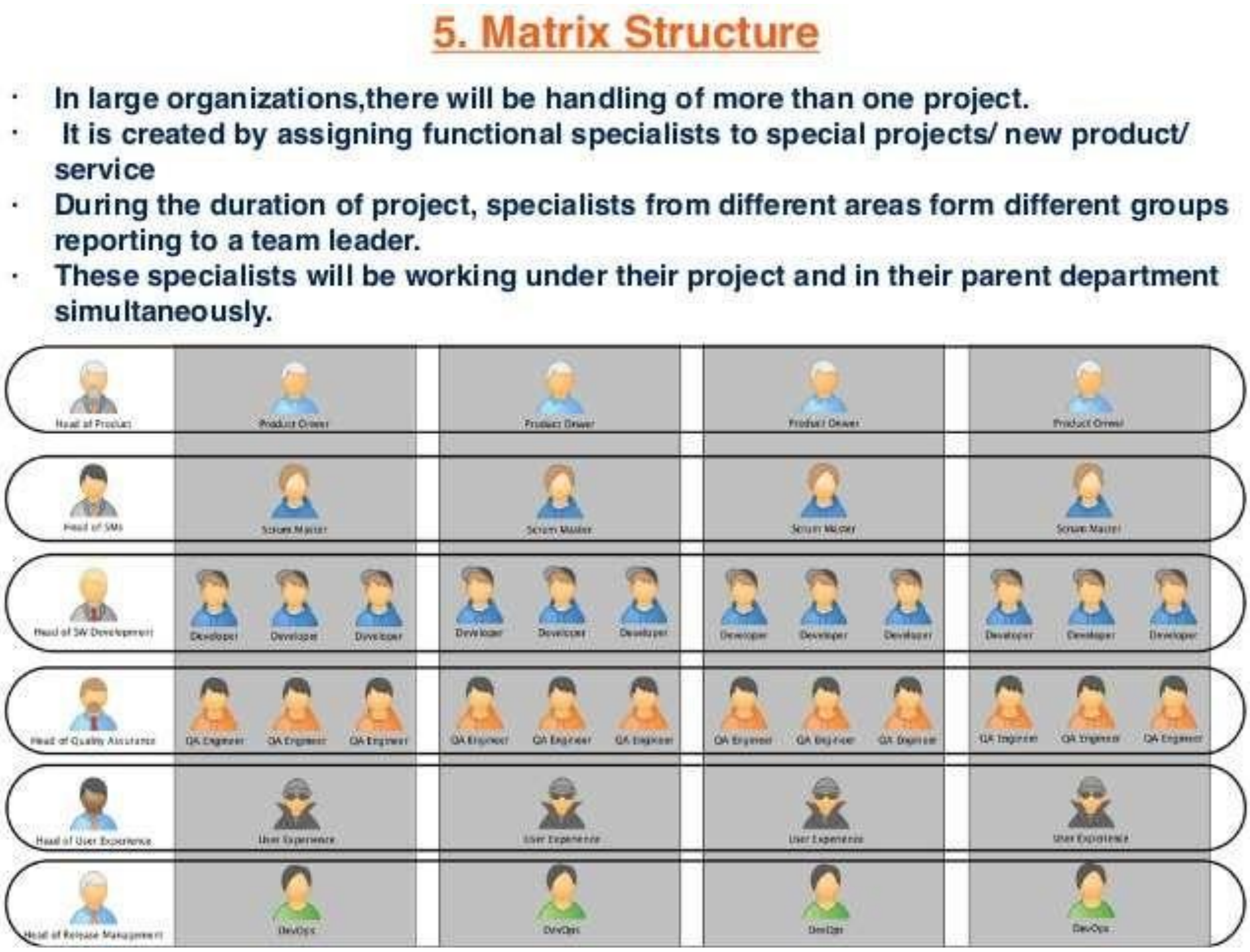
3. Divisional Structure

- Work is divided on the basis of product lines, types of customers served and geographical area covered
- Each separate divisions are created and placed under divisional-level management under which functional structure may still operate.

4. SBU Structure

- **Any part of a business organization which is treated separately for strategic management purpose.**
- **SBU is created due to difficulty in top management to exercise strategic control over a division.**





Structural Considerations in Strategic Implementation:

Before implementing a new or revised strategy, company leaders must ensure the organizational structure can support the planned activities. After identifying the tasks that the company must perform well to succeed, company executives configure organizational hierarchies to support primary strategic goals and achieve competitive advantages. They also identify areas of weakness that pose risks and devise techniques for handling crises. Successful strategic implementation depends on structuring the organization's employees so they can most effectively use the tools and resources available to create quality products and services.

- **Structuring Activities**

To prevent their staff from spending time on activities not directly related to achieving companies' strategic goals, managers identify tasks that can be outsourced to third-party vendors. Structuring work this way allows experts to perform these jobs, typically at a lower cast, while employees focus on their core competencies supporting main businesses. For example, computer manufacturers typically outsource assembly while focusing internally on design, sales and distribution duties.

- **Aligning Functions to Strategic Objectives**

Before corporate leaders can implement new strategies, they need to ensure that all personnel in the organizational structure possess the necessary skills, knowledge and resources to accomplish the tasks. Work must flow from one function to another so leaders should establish clear processes with policies and procedures that define roles and responsibilities. The strategy must be consistent across all departments, adaptive to changes, competitively advantageous and technically feasible.

- **Establishing Authority**

Successfully implementing a new strategy requires that managers and employees understand what activities require executive approval and which decisions employees have the empowerment to make without further approval. Ideally, decision makers should be those people who are closest to the situation and most knowledgeable about the impact. By avoiding micro-managing the organization, managers streamline operations and eliminate wasteful tasks. If the organization is structured to allow employees the flexibility to make critical decisions, they must also be held accountable for their actions.

- **Developing Partnerships**

Strategic implementations require personnel to work together to achieve specific, measurable, attainable, relevant and time-constrained goals and objectives. Establishing a common balanced scorecard prevents groups from competing against each other to succeed individually at the expense of the whole company. If company executives foster a cooperative environment between departments, managers share resources, personnel and knowledge effectively. Additionally, the organizational structure should encourage new employees to seek out coaching and mentoring from corporate executives. By encouraging learning and development, company leaders establish a framework for sustainable growth.

BEHAVIORAL IMPLEMENTATION – CONCEPT:

The **behavioral** of the employees affect the success of the organization. **Strategic implementation** requires support, discipline, motivation and hard work from all manager and employees.

- **Influence Tactics:** The organizational leaders have to successfully implement the strategies and achieve the objectives.
- **Power:** it is the potential ability to influence the behavior of others.
- **Empowerment as a way of Influencing Behavior:** The top executives have to empower lower level employees.

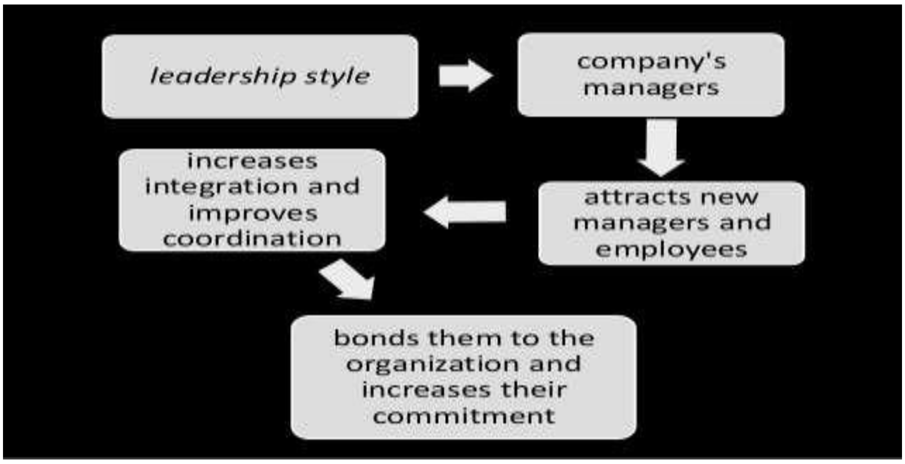
STRATEGY: "Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations". Every organization has to manage its strategies in main three areas;

- The organizations internal resources
- The external environment within which the organization operates
- The organizations ability to add value to what it does

CULTURE: Corporate culture refers to the beliefs and behaviors that determine how a company's employees and management interact and handle outside business transactions. Often, corporate culture is implied, not expressly defined, and develops organically over time from the cumulative traits of the people the company hires. Thus,

- Culture is the social glue.
- Culture provides boundary-defining roles.
- Culture conveys a sense of identity for organization members.
- It serves as a “sense-making” and control mechanism that guides and shapes the attitudes and behavior of employees.

LEADERSHIP: Leadership is fundamental aspect of strategic management and paramount in strategy implementation. The ability to anticipate, envisions, maintain flexibility and empower others to create strategic change.



Strategic leadership affects organizational culture as well, through the way they delegate authority and divide up task relationships. It is pivotal for any leader to have a cultural awareness in formulation, exaction and evaluation of strategy process for any organization irrespective of their purpose of existence. Ultimately it is leader's ability to strike the right balance between Strategy, leadership and culture to realize organizational effectiveness.

MCKINSEY 7-S FRAMEWORK

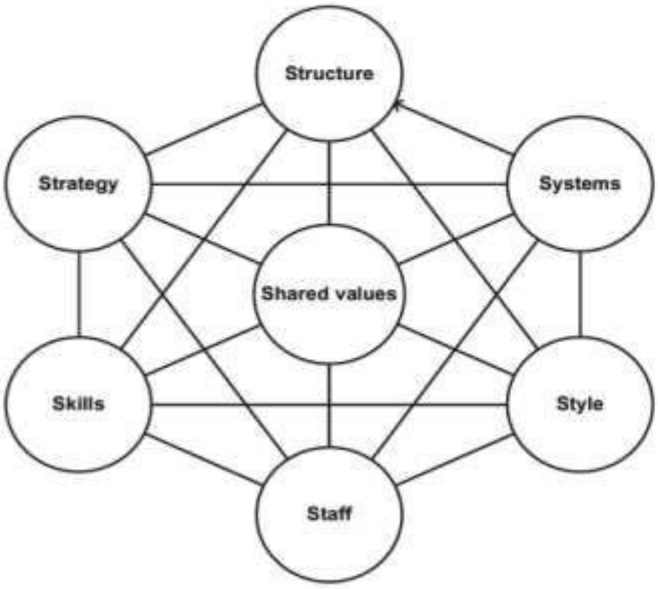
The model was developed in the late 1970s by Tom Peters and Robert Waterman, former consultants at McKinsey & Company. They identified seven internal elements of an organization that need to align for it to be successful.

When to Use the McKinsey 7-S Model:

The model can be applied to many situations and is a valuable tool when organizational design is at question. The most common uses of the framework are:

- To facilitate organizational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organizations.

The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively. McKinsey model, which represents the connections between seven areas and divides them into ‘Soft Ss’ and ‘Hard Ss’. The shape of the model emphasizes interconnectedness of the elements.



Let's look at each of the elements individually:

- **Strategy:** this is your organization's plan for building and maintaining a competitive advantage over its competitors.
- **Structure:** this how your company is organized (that is, how departments and teams are structured, including who reports to whom).
- **Systems:** the daily activities and procedures that staffs use to get the job done.
- **Shared values:** these are the core values of the organization, as shown in its corporate culture and general work ethic. They were called "super ordinate goals" when the model was first developed.
- **Style:** the style of leadership adopted.
- **Staff:** the employees and their general capabilities.

- **Skills:** the actual skills and competencies of the organization's employees.

STRATEGIC CONTROL – CONCEPT:

“Strategic control involves the monitoring and evaluation of plans, activities, and results with a view towards future action, providing a warning signal through diagnosis of data, and triggering appropriate interventions, be they either tactical adjustment or strategic reorientation.” The various components of the strategic control process generate answers to these two questions:

1. Has the strategy been implemented as planned?
2. Based on the observed results, does the strategy need to be changed or adjusted?

Strategic Control Techniques:

There are four primary types of strategic control:

Premise Control: Every organization creates a strategy based on certain assumptions, or premises. As such, premise control is designed to continually and systematically verify whether those assumptions, which are foundational to your strategy, are still true. These are typically environmental (e.g. economic or political shifts) or industry-specific (e.g. new competitors) variables.

Implementation Control: This type of control is a step-by-step assessment of implementation activities. It focuses on the incremental actions and phases of strategic implementation, and monitors events and results as they unfold. Is each action or project happening as planned? Are the proper resources and funds being allocated for each step? This process continually questions the basic direction of your strategy to ensure it’s the right one.

There are two subcategories of implementation control:

- Monitoring Strategic Thrusts or Projects
- Reviewing Milestones

Special Alert Control: When something unexpected happens, a special alert control is mobilized. This is a reactive process, designed to execute a fast and thorough strategy assessment in the wake of an extreme event that impacts an organization. The event could be anything from a natural disaster or product recall to a competitor acquisition. In some cases, a special alert control calls for the formation of a crisis team usually comprising members of the strategic planning and leadership teams and in others, it merely means activating a predetermined contingency plan.

Strategic Surveillance Control: Strategic surveillance is a broader information scan. Its purpose is to identify overlooked factors both inside and outside the company that might impact your strategy. This process ideally covers any “ground” that might be missed by the more focused tactics of premise and implementation control. The surveillance could encompass industry publications, online or social mentions, industry trends, conference activities, etc.

Six Steps of the Strategic Control Process:

1. Determine what to control.
2. Set standards.
3. Measure performance.
4. Compare performance.
5. Analyze deviations.
6. Decide if corrective action is needed.

Thus the entire strategic planning, implementation, and control process takes significant effort and thought. It requires a lot of buy-in from your leadership team. It also requires employees to understand why their actions are important and continuously work toward achievement of goals even if those goals shift over time.

BLOCK-5 STRATEGIC MANAGEMENT

UNIT-5 FUNCTIONAL LEVEL STRATEGIES

Types - Marketing strategies - HRM strategies - Financial strategies - Research and development strategies - Production strategies.

FUNCTIONAL LEVEL STRATEGY – CONCEPT:

Functional Level Strategy can be defined as the day to day strategy which is formulated to assist in the execution of corporate and business level strategies. These strategies are framed as per the guidelines given by the top level management. In business, plans for the future are defined with goals and objectives. Together these goals are the basis for the strategy that is drawn up to actually achieve them. Strategies determine the results, performance, and goals that have to be achieved. Generally, strategies are developed on three levels: corporate, business, and functional.

Functional Level Strategy is concerned with operational level decision making, called **tactical decisions**, for various functional areas such as production, marketing, research and development, finance, personnel and so forth. As these decisions are taken within the framework of business strategy, strategists provide proper direction and suggestions to the functional level managers relating to the plans and policies to be opted by the business, for successful implementation.

Who is responsible for functional strategies?

In hierarchical organizations, different people are responsible for the implementation of strategies on a functional level. Usually they are the senior experts such as a financial manager or engineering manager. On a corporate level, the CEO or president are responsible for the implementation of the most important strategies. Some examples of common functional strategies are production strategy, debt financing, organizational strategies, marketing strategies, financial strategies, etc.

Functional strategies core points:

Of the three levels of strategy, the functional strategy is the most detailed one. Each department has its own specific goals and tools or digital support solutions. These are also included in the functional strategy. All departments also keep track of statistics on performance and team successes.

Take into account the following matters when creating functional strategies.

1. Aligning functional and business strategy:

Eventually the goal of the functional strategies is to support the overall business strategies. That's why the strategies on a functional level always have to be aligned with the business-level strategy and the corporate-level strategy.

2. Progression:

A threat to properly implementing a functional strategy is tracking too much data and information in order to measure progress. It's essential to consider carefully what data must be tracked to determine if progress is being made toward supporting the business strategy.

3. Integration:

Just aligning the functional strategy to the business strategy isn't enough. Horizontally separate functional strategies have to be integrated as well. An example could be coordinating procurement/production, stocks, and logistics.

4. Allocating resources:

It is important that the different divisions and departments get the right resources to implement the functional strategy. In other words, a functional strategy can't be implemented if the department doesn't have the resources. This refers to both material resources – money – and personnel. If the department in question doesn't have those resources, this can have serious consequences for the extent to which the department can successfully contribute to the business strategy.

Role of Functional Strategy:

- It assists in the overall business strategy, by providing information concerning the management of business activities.
- It explains the way in which functional managers should work, so as to achieve better results.

- Functional Strategy states what is to be done, how is to be done and when is to be done are the functional level, which ultimately acts as a guide to the functional staff. And to do so, strategies are to be divided into achievable plans and policies which work in tandem with each other. Hence, the functional managers can implement the strategy.

Functional Strategy step-by-step plan:

Business strategies determine the organization's overall course. Based on this, the strategies on the organization's functional level are determined. This step-by-step plan describes an approach for defining a strategy at a functional level. It answers the question of how to create a functional strategy that properly supports the business strategy.

1. Aligning business functions and business strategy

In many organizations, functional strategies aren't properly aligned with the overall business strategy. This leads to inefficiencies such as wasting resources and activities, as well as activities and projects that don't support the overall strategy. In the worst cases, a functional strategy can even impede the overall business strategy. One way to counteract this is by actively involving the functional management when developing functional strategies. They can provide specific information about workflows and the ways different units work. As familiar from the theory behind the MOST analysis, it is crucial that the most important stakeholders are involved with creating the strategy. These are shareholders, the board, workers, clients, and suppliers. Their input is important so that the strategies are fully aligned and meet their most important expectations.

2. From Business Strategy to Functional Strategy

Different sources of information are used to develop a functional strategy. In most cases, the overall business strategy is the most important element. Preferences and demands from other stakeholders, such as clients and the board, are also taken into account. In addition, benchmarking provides important input, or the results of SWOT analyses.

3. Collect input from stakeholders

Collecting information about different individual functions isn't just necessary to define their expectations, but is also aimed at ensuring that the functional strategy is aligned with the present reality. It's therefore important that organizations regularly use surveys to find out what's working and what's not. In the example of the HR department of the pharmaceutical company, the HR owner must, for instance, initiate an employee satisfaction survey to determine to what extent the positions meet employee expectations.

4. Define crucial objectives

It was explained before that functional strategies are generally much more detailed than, for instance, business strategies. There's often no shortage of ideas of what to do with functional strategies. However, the capacity to implement these ideas is usually limited. Therefore focus on the objectives that are absolutely essential for supporting the business strategy. Align this based on the input provided by different stakeholders.

5. Prepare for implementation

When it comes to defining the various functional actions that together make up the functional strategy, 'who' is just as important as 'what'. The best way to achieve this is to turn strategy development into a team activity. This way every management team is involved in developing the strategy. That allows each manager take personal responsibility for implementing a particular initiative.

6. Define Key Performance Indicators (KPIs)

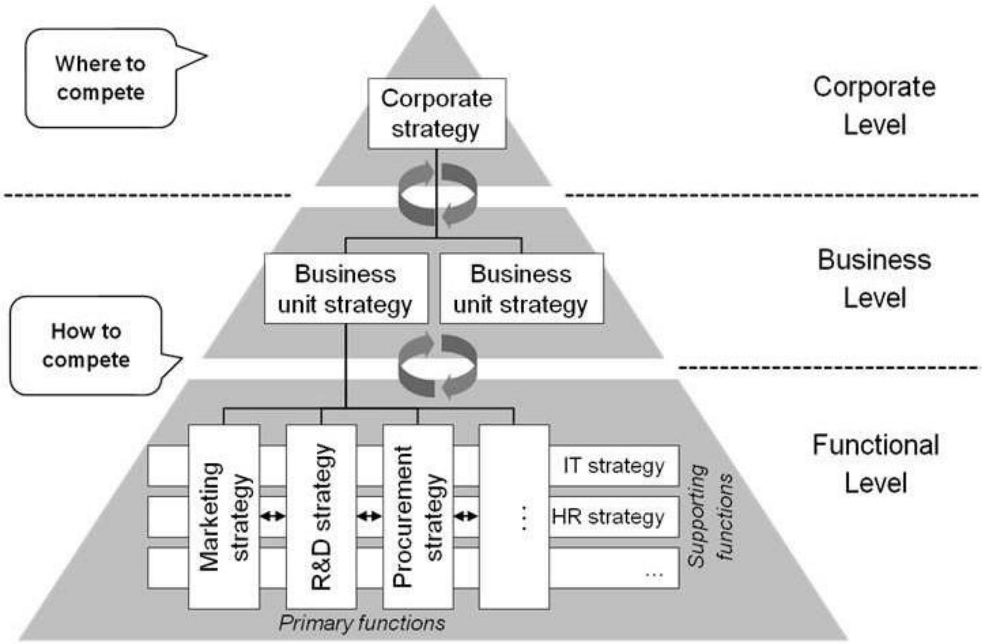
Key Performance Indicators (KPIs) are vitally important to monitor the progress of the functional strategy compared to the business strategy. You can read more about creating these progress statistics here.

7. Feedback & monitoring

Developing a functional strategy based on the business strategy is a good first step for a successful organisation. However, as the business develops, circumstances can change. That's why it's important that the alignment of the functional strategy to the business strategy remains an important focus. In addition to a set of good KPIs, it's important that a business steering group is appointed to collect feedback to maintain alignment.

Functional Areas of Business:

There are several functional areas of business which require strategic decision making, as follows;



I. FUNCTIONAL MARKETING STRATEGY:

Marketing consists of activities related to identifying consumer needs and working to meet those needs with a product or service. One of the most important components of a functional marketing strategy is the marketing mix. This consists of all steps a business can and must take to increase demand for products or services. The traditional marketing mix consists of price, promotion, process, and people.

Marketing management is "planning, organizing, controlling and implementing of marketing programmes, policies, strategies and tactics designed to create and satisfy the demand for the firms' product offerings or services as a means of generating an acceptable profit." It deals with creating and regulating the demand and providing goods for which customers are willing to pay a price worth their value.

Elements of marketing management:

The basic elements of marketing management are:

(a) Customer orientation:

The focus of marketing function is to sell goods desired by consumers; the goods that satisfy their needs.

(b) Integrated effort:

Marketing function should be coordinated with other functional areas of production, finance and personnel management.

(c) Profitability:

While the consumer wants a product that satisfies his needs, seller sells a product which provides profit. A successful marketing strategy should provide profits to the marketer along with customer satisfaction.

(d) Viability:

The goods should not only earn profits, they should also build reputation of the firm in terms of quantity, quality and the price at which goods are sold.

Marketing mix:

Marketing plans are made within the constraints of controllable and non- controllable variables. The non-controllable variables are social, technological, political, cultural and legal factors which affect the marketing strategies. Controllable factors are the product, price, promotion and channels of distribution. Marketing mix is the combination of controllable variables that make a successful marketing programme.

(a) Product mix:

It deals with physical attributes and benefits of the product. Ownership gives a sense of pride and satisfaction to the consumer and, therefore, the product should be properly designed, colored and packed.

(b) Pricing mix:

Pricing is an important marketing decision. Pricing is affected by factors such as costs, legal framework, prices charged by competitors and the prices that consumers are ready to pay. Price should recover the costs and earn a reasonable return on capital. This ensures long-run survival and growth of the enterprise.

(c) Promotion mix:

It refers to communication with the consumers regarding the product. It motivates them to buy the goods.

Sales can be promoted in three ways:

(i) Advertisement:

It presents the product details to consumers through media. It is a non-personal means of communication.

(ii) Personal selling:

The seller directly contacts the buyer and convinces them to buy the goods.

(iii) Sales promotion:

It supplements advertisement and personal selling as a means of promoting sales. It increases sales by holding contests, lotteries etc. Different combinations of sales promotion techniques can be used at a point of time.

Channel mix:

After the product is designed, priced and advertised it arouses consumers' interest to buy. The channel mix identifies the path through which goods are transferred from sellers to buyers. The seller may sell directly to the buyer or through intermediation of wholesalers and retailers.

More than one channel of distribution can be adopted at the same time; for example, a wholesaler can sell through retailers and also directly to consumers. The channel mix selects and maintains the channel to ensure consistency in selling practices followed by the sales people.

II. FUNCTIONAL FINANCIAL STRATEGY:

The Functional Strategy for the financial area relates to everything to do with financial management, such as planning, acquiring, using, and managing a company's financial resources. It's about raising capital, creating budgets for various departments, application of funds, investments, work capital management, dividend payments, calculating net values, etc.

Some of the functional areas covered in financial management are discussed as such:

1. Determining Financial Needs:

A finance manager is supposed to meet financial needs of the enterprise. For this purpose, he should determine financial needs of the concern. Funds are needed to meet promotional expenses, fixed and working capital needs. The requirement of fixed assets is related to the type of industry. A manufacturing concern will require more investments in fixed assets than a trading concern. The working capital needs depend upon the scale of operations, larger the scale of operations, the higher will be the needs for working capital. A wrong assessment of financial needs may jeopardies the survival of a concern.

2. Selecting the Sources of Funds:

A number of sources may be available for raising funds. A concern may resort to issue of share capital and debentures. Financial institutions may be requested to provide long-term funds. The working capital needs may be met by getting cash credit or overdraft facilities from commercial banks. A finance manager has to be very careful and cautious in approaching different sources. The terms and conditions of banks may not be favorable to the concern. A small concern may find difficulties in raising funds for want of adequate securities or due to its reputation. The selection of a suitable source of funds will influence the profitability of the concern. This selection should be made with great caution.

3. Financial Analysis and Interpretation:

The analysis and interpretation of financial statements is an important task of a finance manager. He is expected to know about the profitability, liquidity position, short-term and long-term financial position of the concern. For this purpose, a number of ratios have to be calculated. The interpretation of various ratios is also essential to reach certain conclusions. Financial analysis and interpretation has become an important area of financial management.

4. Cost-Volume-Profit Analysis:

Cost-volume-profit analysis is an important tool of profit planning. It answers questions like, what is the behavior of cost and volume. At what point of production a firm will be able to recover its costs? How much a firm should produce to earn a desired profit? To understand cost-volume-profit relationship, one should know the behavior of costs. The costs may be subdivided as: fixed costs, variable costs and semi-variable costs. Fixed costs remain constant irrespective of changes in production. An increase or decrease in volume of production will not influence fixed costs. Variable costs, on the other hand, vary in direct proportion to change in production. Semi-variable costs remain constant for a period and then become variable for a short period. These costs change with the change in output but not in the same proportion.

The first concern of a finance manager will be to recover all costs. He will aspire to achieve break-even point at the earliest. It is a point of no-profit no-loss. Any production beyond break-even point will bring profits to the concern. The volume of sales, to earn a desired profit, can also be ascertained. This analysis is very helpful in deciding the volume of output or sales. The knowledge of cost-volume profit analysis is essential for taking important decisions about production and profits.

5. Capital Budgeting:

Capital budgeting is the process of making investment decisions in capital expenditures. It is an expenditure the benefits of which are expected to be received over a period of time exceeding one year. It is an expenditure incurred for acquiring or improving the fixed assets, the benefits of which are expected to be received over a number of years in future. Capital budgeting decisions are vital to any organization. An unsound investment decision may prove to be fatal for the very existence of the concern.

The crux of capital budgeting is the allocation of available resources to various proposals. The crucial factor which influences the capital budgeting decision is the profitability of the prospective investment. For making correct capital budgeting decisions, the knowledge of its techniques is essential. A number of methods like payback period method, rate of return method, net present value method, internal rate of return method and profitability index method may be used for making capital budgeting decisions.

6. Working Capital Management:

Working capital is the life blood and nerve centre of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is essential to maintain the smooth running of business. No business can run successfully without an adequate amount of working capital. Working capital refers to that part of the firm's capital which is required for financing short-term or current assets such as cash, receivables and inventories. It is essential to maintain a proper level of these assets. Finance manager is required to determine the quantum of such assets. Cash is required to meet day-to-day needs and purchase inventories etc.

The scarcity of cash may adversely affect the reputation of a concern. The receivables management is related to the volume of production and sales. For increasing sales, there may be a need to give more credit facilities. Though sales may go up but the risk of bad debts and cost involved in it may have to be weighed against the benefits. Inventory control is also an important factor in working capital management. The inadequacy of inventory may cause delays or stoppages of work. Excess inventory, on the other hand, may result in blocking of money in stocks, more costs in stock maintaining etc. Proper management of working capital is an important area of financial management.

7. Profit Planning and Control:

Profit planning and control is an important responsibility of the financial manager. Profit maximization is, generally, considered to be an important objective of a business. Profit is also used as a tool for evaluating the performance of management. Profit is determined by the volume of revenue and expenditure. Revenue may accrue from sales, investments in outside securities or income from other sources. The expenditures may include manufacturing costs, trading expenses, office and administrative expenses, selling and distribution expenses and financial costs.

The excess of revenue over expenditure determines the amount of profit. Profit planning and control directly influence the declaration of dividend creation of surpluses, taxation etc. Break even analysis and cost-volume profit relationship are some of the tools used in profit planning and control.

8. Dividend Policy:

Dividend is the reward of the shareholders for investments made by them in the shares of the company. The investors are interested in earning the maximum return on their investments whereas management wants to retain profits for further financing. These contradictory aims will have to be reconciled and in the interests of shareholders and the company. The company should distribute a reasonable amount as dividends to its members and retain the rest for its growth and survival.

A dividend policy is influenced by number of factors such as magnitude and trend of earnings, desire and type of shareholders, future requirements of the company, government's economic policy, taxation policy, etc. Dividend policy is an important area of financial management because the interests of the shareholders and the needs of the company are directly related to it.

III. FUNCTIONAL HUMAN RESOURCES STRATEGY:

The functional HR strategy consists of everything related to the development of employees and the opportunities and working conditions they are offered in order for them to be able to contribute to the organisation. The functional HR strategy consists of recruitment & selection, development, motivation, and retaining employees and other relations.

Human resource strategy covers how an organization works for the development of employees and provides them with the opportunities and working conditions so that they will contribute to the organization as well. This also means to select the best employee for performing a particular task or job. It strategizes all the HR activities like recruitment, development, motivation, retention of employees, and industrial relations.

Human resource department performs the following functions:

(a) Human resource planning or manpower planning balances the demand for employees in qualitative and quantitative terms and its supply from various internal and external resources. Internal sources fill organizational posts from within the organisation and external sources provide labor from outside sources such as labor market.

(b) Recruitment analyses requirements of the job, prepares job description and invites applications from those whose qualifications match the job description.

(c) Selection selects the most suitable person out of those who have applied for the job. Written tests and interviews are conducted to select the suitable candidates.

(d) Performance appraisal assesses the performance with the targeted performance to check deviations and provide training to improve the performance.

(e) Training enhances the knowledge and skills of employees. It enables them to effectively manage the organizational positions and promotes their growth. Training programmes can be conducted on-the-job or external agencies can provide training to the employees.

(f) Rewards deal with the pay structure for each job. Rewards vary with the skill, knowledge and competence for each job position.

(g) Industrial relations maintain harmonious relations between the management and employees. Grievances or disputes are settled by the personnel manager by following legal provisions and rules.

(h) Employee communication and participation communicates managerial decisions to employees and allows them to participate in the decision-making processes.

(i) Personnel records maintain record of employees regarding their qualification, experience and achievements. It is maintained by the personnel department. This serves as the basis for internal recruitment where employees can be placed at jobs within the organisation. These records help in matching job description with job specification, which is, matching the requirement of the job with qualifications of the person.

The focus of HRM is growth and development of the organisation along with its work force.

Features of HRM:

(a) It views employees as important organizational resource that is committed to organizational needs and works towards its goals.

(b) It aims to satisfy individual needs by providing challenging, lucrative and meaningful jobs to employees.

(c) It follows the concept of 'mutuality' where managers focus on mutual goals, mutual respect, mutual rewards etc.

(d) It allows employees to participate in the decision-making processes.

(e) It caters to the interests of people internal (labor force) and external to the organisation (customers, suppliers, shareholders etc.)

Objectives of HRM:

(a) Effective utilization of human resource.

(b) Motivate people to make them committed to organizational goals.

(c) Frame policies and procedures that fulfill the needs of employees.

(d) Aim at growth and development of employees through teamwork, co-operation, creativity and innovation.

(e) Maintain human flexibility in the jobs they are placed at and the number of hours they spend on each job to achieve quality management.

IV. FUNCTIONAL PRODUCTION STRATEGY:

A firm's production strategy focuses on the overall manufacturing system, operational planning and control, logistics and supply chain management. The primary objective of the production strategy is to enhance the quality, increase the quantity and reduce the overall cost of production.

Production Management refers to the application of management principles to the production function in a factory. In other words, production management involves application of planning, organizing, directing and controlling the production process.

Definition of Production Management:

It is observed that one cannot demarcate the beginning and end points of Production Management in an establishment. The reason is that it is interrelated with many other functional areas of business, viz., marketing, finance, industrial relation policies etc.

Alternately, Production Management is not independent of marketing, financial and personnel management due to which it is very difficult to formulate some single appropriate definition of Production Management.

The following definitions try to explain main characteristics of production management:

(i) In the words of E.L. Brech, "Production Management is the process of effective planning and regulating the operations of that section of an enterprise which is responsible for the actual transformation of materials into finished products." This definition limits the scope of production management to those activities of an enterprise which is associated with the transformation process of inputs into outputs.

In short, the main activities of production management can be listed as:

(i) Specification and procurement of input resources namely management, material, and land, labor, equipment and capital.

(ii) Product design and development to determine the production process for transforming the input factors into output of goods and services.

(iii) Supervision and control of transformation process for efficient production of goods and services.

Functions of Production Management:

The definitions discussed above clearly shows that the concept of production management is related mainly to the organizations engaged in production of goods and services. Earlier these organizations were mostly in the form of one man shops having insignificant problems of managing the productions.

But with development and expansion of production organizations in the shape of factories more complicated problems like location and lay out, inventory control, quality control, routing and scheduling of the production process etc. came into existence which required more detailed analysis and study of the whole phenomenon.

This resulted in the development of production management in the area of factory management. In the beginning the main function of production management was to control labor costs which at that time constituted the major proportion of costs associated with production.

But with development of factory system towards mechanization and automation the indirect labor costs increased tremendously in comparison to direct labor costs, e.g., designing and packing of the products, production and inventory control, plant layout and location, transportation of raw materials and finished products etc. The planning and control of all these activities required more expertise and special techniques.

In modern times production management has to perform a variety of functions, namely:

- Design and development of production process.
- Production planning and control.
- Implementation of the plan and related activities to produce the desired output.
- Administration and co-ordination of the activities of various components and departments responsible for producing the necessary goods and services.

However, the responsibility of determining the output characteristics and the distribution strategy followed by an organization including pricing and selling policies are normally outside the scope of Production Management.

Scope of Production Management:

The scope of production management is indeed vast. Commencing with the selection of location, production management covers such activities as acquisition of land, constructing building, procuring and installing machinery, purchasing and storing raw materials and converting them into saleable products. Added to the above are other related topics such as quality management, maintenance management, production planning and control, methods improvement and work simplification and other related areas.

V. FUNCTIONAL RESEARCH AND DEVELOPMENT STRATEGY:

The research and development strategy focuses on innovating and developing new products and improving the old one, so as to implement an effective strategy and lead the market. Product development, concentric diversification and market penetration are such business strategies which require the introduction of new products and significant changes in the old one.

For implementing strategies, there are three Research and Development approaches:

- To be the first company to market a new technological product.
- To be an innovative follower of a successful product.
- To be a low-cost producer of products.

The Functional Strategy for research & development is about innovation and the development of new products as well as the improvement of existing products. Examples of functional strategies in this area: product development, diversification, and market penetration.

The following activities are performed under it:

New Product Research:

Before a new product is developed, a research and development department conducts a thorough study to support the project. The research phase includes determining product specifications, production costs and a production time line. The research also is likely to include an evaluation of the need for the product before the design begins to ensure it is a functional product that customers want to use.

New Product Development:

The research paves the way for the development phase. This is the time when the new product is actually developed based on the requirements and ideas created during the research phase. The developed product must meet the product guidelines and any regulatory specifications.

Existing Product Updates:

Existing products of the company also fall under the scope of research and development. The department regularly evaluates the products offered by the company to ensure they are still functional. Potential changes or upgrades are considered. In some cases, the research and development department is asked to resolve a problem with an existing product that malfunctions or to find a new solution if the manufacturing process must change.

Quality Control Checks:

In many companies, the research and development team handles the quality checks on products created by the company. The department has an intimate knowledge of the requirements and specifications of a particular project. This allows team members to ensure the products meet those standards so the company puts out quality products. If the company also has a quality assurance team, it may collaborate with research and development on quality checks.

Innovation and Staying Ahead of Treads:

The research and development team aids the company in staying competitive with others in the industry. The department is able to research and analyze the products other businesses are creating, as well as the new trends within the industry. This research aids the department in developing and updating the products created by the company. The team helps direct the future of the company based on the information it provides and products it creates.

FUNCTIONAL STRATEGY SUMMARY

Strategies on a functional level consist of actions and objectives that support the overall business strategy. In hierarchical organizations, different people are responsible for the implementation of various functional strategies. They are usually the department managers. Such as a general financial director. He or she is responsible for implementing the financial strategy. A marketing manager is responsible for implementing the marketing strategy.

The most important condition for properly functioning strategies is that they are aligned with the overall business strategy. One way to ensure this is to involve functional management with strategy development. They know about the workflows, available resources, and maximum capacity. When developing a functional strategy, information from different sources is used. Think for instance of input from stakeholders such as clients, the board, and suppliers. Benchmarking and the results of strategic analyses, such as SWOT analyses, are also considered.

Because functional strategies tend to be much more detailed than the overall business strategy, it’s necessary to make a choice from the many possible objectives. Only actions and processes that demonstrably support the business strategies must be implemented to effectively use resources. It’s important to develop KPIs to measure progress and effectiveness. Over time, the functional strategies can be adjusted based on these KPIs, so that they continue to support the business strategy.