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STRATEGIC MANAGEMENT

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This tutorial "Strategic Management" recommended for Master's degree students, raising the level of skill and self-arrangeed training. The course cycle presented fundamental aspects, processes and general approaches of strategic management and business cases which are focused on the achievement of organization goals by contributing the formation of student systematic and clear thinking.

This instructional guidance created for the students enrolled in Master Program "High-Technology Business Management" on 38.04.02 Management.

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INTRODUCTION

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

The tutorial covers all important concepts of Strategic Management and gives possibility to check the received knowledge through cases.

1. HISTORICAL DEVELOPMENT OF STRATEGIC MANAGEMENT

1.1. Birth of strategic management

Strategic management as a discipline originated in the 1950s and 60s. Although there were numerous early contributors to the literature, the most influential pioneers were Alfred D. Chandler, Jr., Philip Selznick, Igor Ansoff, and Peter Drucker.

Alfred Chandler recognized the importance of coordinating the various aspects of management under one all-encompassing strategy. Prior to this time the various functions of management were separate with little overall coordination or strategy. Interactions between functions or between departments were typically handled by a boundary position, that is, there were one or two managers that relayed information back and forth between two departments. Chandler also stressed the importance of taking a long term perspective when looking to the future. In his 1962 groundbreaking work *Strategy and Structure*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction, and focus. He says it concisely, “structure follows strategy.”

Peter Drucker was a prolific strategy theorist, author of dozens of management books, with a career spanning five decades. His contributions to strategic management were many but two are most important. Firstly, he stressed the importance of objectives. An organization without clear objectives is like a ship without a rudder. As early as 1954 he was developing a theory of management based on objectives. This evolved into his theory of **management by objectives** (MBO). According to Drucker, the procedure of setting objectives and monitoring your progress towards them should permeate the entire organization, top to bottom. His other seminal contribution was in predicting the importance of what today we would call intellectual capital. He predicted the rise of what he called the “knowledge worker” and explained the consequences of this for management. He said that knowledge work is non-hierarchical. Work would be carried out in teams with the person most knowledgeable in the task at hand being the temporary leader.

In 1985, Ellen-Earle Chaffee summarized what she thought were the main elements of strategic management theory by the 1970s:

- Strategic management involves adapting the organization to its business environment.
- Strategic management is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses.
- Strategic management affects the entire organization by providing direction.
- Strategic management involves both strategy formation (she called it content) and also strategy implementation (she called it process).
- Strategic management is partially planned and partially unplanned.
- Strategic management is done at several levels: overall corporate strategy, and individual business strategies.
- Strategic management involves both conceptual and analytical thought processes.

The benefits of high market share naturally lead to an interest in growth strategies. The relative advantages of horizontal integration, vertical integration, diversification, franchises, mergers and acquisitions, joint ventures, and organic growth were discussed. The most appropriate market dominance strategies were assessed given the competitive and regulatory environment.

By the late 70s people had started to notice how successful Japanese industry had become. In industry after industry, including steel, watches, ship building, cameras, autos, and electronics, the Japanese were surpassing American and European companies. Westerners wanted to know why. Numerous theories purported to explain the Japanese success including:

- Higher employee morale, dedication, and loyalty;
- Lower cost structure, including wages;
- Effective government industrial policy;
- Modernization after WWII leading to high capital intensity and productivity;
- Economies of scale associated with increased exporting;
- Relatively low value of the Yen leading to low interest rates and capital costs, low dividend expectations, and inexpensive exports;
- Superior quality control techniques such as Total Quality Management and other systems introduced by W. Edwards Deming in the 1950s and 60s.

In 1981 Richard Pascale and Anthony Athos in *The Art of Japanese Management* claimed that the main reason for Japanese success was their superior management techniques. They divided management into 7 aspects (which are also known as McKinsey 7S Framework): Strategy, Structure, Systems, Skills, Staff, Style, and Supraordinate goals (which we would now call shared values). The first three of the 7 S's were called hard factors and this is where American companies excelled. The remaining four factors (skills, staff, style, and shared values) were called soft factors and were not well understood by American businesses of the time (for details on the role of soft and hard factors see Wickens P.D. 1995.).

In 1982 Tom Peters and Robert Waterman released a study that would respond to the Japanese challenge head on. Peters and Waterman, who had several years earlier collaborated with Pascale and Athos at McKinsey & Co. asked "What makes an excellent company?". They looked at 62 companies that they thought were fairly successful. Each was subject to six performance criteria. To be classified as an excellent company, it had to be above the 50th percentile in 4 of the 6 performance metrics for 20 consecutive years. Forty-three companies passed the test. They then studied these successful companies and interviewed key executives. They concluded in *In Search of Excellence* that there were 8 keys to excellence that were shared by all 43 firms. They are:

- A bias for action — Do it. Try it. Don't waste time studying it with multiple reports and committees.
- Customer focus — Get close to the customer. Know your customer.
- Entrepreneurship — Even big companies act and think small by giving people the authority to take initiatives.
- Productivity through people — Treat your people with respect and they will reward you with productivity.
- Value-oriented CEOs — The CEO should actively propagate corporate values throughout the organization.
- Stick to the knitting — Do what you know well.
- Keep things simple and lean — Complexity encourages waste and confusion.
- Simultaneously centralized and decentralized — Have tight centralized control while also allowing maximum individual autonomy.

Gary Hamel and C. K. Prahalad declared that strategy needs to be more active and interactive; less "arm-chair planning" was needed. They introduced terms like **strategic intent** and **strategic architecture**. Their most well-known advance was the idea of core competency. They showed how important it was to know the one or two key things that your company does better than the competition.

Probably the most influential strategist of the decade was Michael Porter. He introduced many new concepts including; 5 forces analysis, generic strategies, the value chain, strategic groups, and clusters. In 5 forces analysis he identifies the forces that shape a firm's strategic environment. It is like a SWOT analysis with structure and purpose. It shows how a firm can use these forces to obtain a sustainable competitive advantage. Porter modifies Chandler's dictum about structure following strategy by introducing a second level of structure: Organizational structure follows strategy, which in turn follows industry structure. Porter's generic strategies detail the interaction between **cost minimization strategies**, **product differentiation strategies**, and **market focus strategies**. Although he did not introduce these terms, he showed the importance of choosing one of them rather than trying to position your company between them. He also challenged managers to see their industry in terms of a value chain. A firm will be successful only to the extent that it contributes to the industry's value chain. This forced management to look at its operations from the customer's point of view. Every operation should be examined in terms of what value it adds in the eyes of the final customer.

In 1989 Richard Lester and the researchers at the MIT Industrial Performance Center identified seven **best practices** and concluded that firms must accelerate the shift away from the mass production of low cost standardized products. The seven areas of best practice were:

Simultaneous continuous improvement in cost, quality, service, and product innovation:

- Breaking down organizational barriers between departments;
- Eliminating layers of management creating flatter organizational hierarchies;
- Closer relationships with customers and suppliers;
- Intelligent use of new technology;
- Global focus;
- Improving human resource skills.

The search for “best practices” is also called benchmarking. This involves determining where you need to improve, finding an organization that is exceptional in this area, then studying the company and applying its best practices in your firm.

A large group of theorists felt the area where western business was most lacking was product quality. People like W. Edwards Deming, Joseph M. Juran, A. Kearney, Philip Crosby, and Armand Feignbaum suggested quality improvement techniques like Total Quality Management (TQM), continuous improvement, lean manufacturing, Six Sigma, and Return on Quality (ROQ).

Process management uses some of the techniques from product quality management and some of the techniques from customer service management. It looks at an activity as a sequential process. The objective is to find inefficiencies and make the process more effective. Although the procedures have a long history, dating back to Taylorism, the scope of their applicability has been greatly widened, leaving no aspect of the firm free from potential process improvements. Because of the broad applicability of process management techniques, they can be used as a basis for competitive advantage.

James Gilmore and Joseph Pine found competitive advantage in mass customization. Flexible manufacturing techniques allowed businesses to individualize products for each customer without losing economies of scale. This effectively turned the product into a service. They also realized that if a service is mass customized by creating a "performance" for each individual client, that service would be transformed into an "experience". Their book, *The Experience Economy*,[41] along with the work of Bernd Schmitt convinced many to see service provision as a form of theatre. This school of thought is sometimes referred to as customer experience management (CEM).

Arie de Geus (1997) undertook an empirical research on what makes great companies and obtained similar results. He identified four key traits of companies that had prospered for 50 years or more. They are:

- Sensitivity to the business environment – the ability to learn and adjust;
- Cohesion and identity – the ability to build a community with personality, vision, and purpose;
- Tolerance and decentralization – the ability to build relationships;
- Conservative financing.

A company with these key characteristics he called a **living company** because it is able to perpetuate itself. If a company emphasizes knowledge rather than finance, and sees itself as an ongoing community of human beings, it has the potential to become great and endure for decades. Such an organization is an organic entity capable of learning (he called it a "learning organization") and capable of creating its own processes, goals, and persona.

In 1993, J. Moore used a similar metaphor. Instead of using military terms, he created an ecological theory of predators and prey (see ecological model of competition), a sort of Darwinian management strategy in which market interactions mimic long term ecological stability.

In 1988, Henry Mintzberg looked at the changing world around him and decided it was time to reexamine how strategic management was done. He examined the strategic process and concluded it was much more fluid and unpredictable than people had thought. Because of this, he could not point to one process that could be called strategic planning. Instead he concludes that there are five types of strategies. They are:

- Strategy as plan - a direction, guide, course of action - intention rather than actual;
- Strategy as ploy - a maneuver intended to outwit a competitor;
- Strategy as pattern – a consistent pattern of past behaviour – realized rather than intended;
- Strategy as position – locating of brands, products, or companies within the conceptual framework of consumers or other stakeholders – strategy determined primarily by factors outside the firm;
- Strategy as perspective – strategy determined primarily by a master strategist.

Peter Drucker had theorized the rise of the "knowledge worker" back in the 1950s. He described how fewer workers would be doing physical labour, and more would be applying their minds. In 1984, John Nesbitt theorized that the future would be driven largely by information: companies that managed information well could obtain an advantage, however the profitability of what he calls the "information float" (information that the company had and others desired) would all but disappear as inexpensive computers made information more accessible.

In 1990, Peter Senge, who had collaborated with Arie de Geus at Dutch Shell, borrowed de Geus' notion of the **learning organization**, expanded it, and popularized it. The underlying theory is that a company's ability to gather, analyze, and use information is a necessary requirement for business success in the information age. (See organizational learning.) In order to do this, Senge claimed that an organization would need to be structured such that:

- People can continuously expand their capacity to learn and be productive;
- New patterns of thinking are nurtured;
- Collective aspirations are encouraged, and;
- People are encouraged to see the “whole picture” together.

Senge identified five components of a learning organization. They are:

- Personal responsibility, self-reliance, and mastery – We accept that we are the masters of our own destiny. We make decisions and live with the consequences of them. When a problem needs to be fixed, or an opportunity exploited, we take the initiative to learn the required skills to get it done.
- Mental models – We need to explore our personal mental models to understand the subtle effect they have on our behaviour.
- Shared vision – The vision of where we want to be in the future is discussed and communicated to all. It provides guidance and energy for the journey ahead.
- Team learning – We learn together in teams. This involves a shift from “a spirit of advocacy to a spirit of enquiry”.
- Systems thinking – We look at the whole rather than the parts. This is what Senge calls the “Fifth discipline”. It is the glue that integrates the other four into a coherent strategy. For an alternative approach to the “learning organization”, see Garratt, B. (1987).

Since 1990 many theorists have written on the strategic importance of information, including J.B. Quinn, J. Carlos Jarillo, D.L. Barton, Manuel Castells, J.P. Lieleskin, Thomas Stewart, K.E. Sveiby, Gilbert J. Probst, and Shapiro and Varian to name just a few.

1.2. The psychology of strategic management

Several psychologists have conducted studies to determine the psychological patterns involved in strategic management. Typically senior managers have been asked how they go about making strategic decisions. A 1938 treatise by Chester Barnard, that was based on his own experience as a business executive, sees the process as informal, intuitive, non-routinized, and involving primarily oral, 2-way communications. Bernard says “The process is the sensing of the organization as a whole and the total situation relevant to it. It transcends the capacity of merely intellectual methods, and the techniques of discriminating the factors of the situation. The terms pertinent to it are “feeling”, “judgement”, “sense”, “proportion”, “balance”, “appropriateness”. It is a matter of art rather than science.”

In 1973, Henry Mintzberg found that senior managers typically deal with unpredictable situations so they strategize in *ad hoc*, flexible, dynamic, and implicit ways. He says, “The job breeds adaptive information-manipulators who prefer the live concrete situation. The manager works in an environment of stimulous-response, and he develops in his work a clear preference for live action.”

In 1982, John Kotter studied the daily activities of 15 executives and concluded that they spent most of their time developing and working a network of relationships from which they gained general insights and specific details to be used in making strategic decisions. They tended to use “mental road maps” rather than systematic planning techniques.

Daniel Isenberg's 1984 study of senior managers found that their decisions were highly intuitive. Executives often sensed what they were going to do before they could explain why. He claimed in 1986 that one of the reasons for this is the complexity of strategic decisions and the resultant information uncertainty.

Shoshana Zuboff (1988) claims that information technology is widening the divide between senior managers (who typically make strategic decisions) and operational level managers (who typically make routine decisions). She claims that prior to the widespread use of computer systems, managers, even at the most senior level, engaged in both strategic decisions and routine administration, but as computers facilitated (She called it “deskilled”) routine processes, these activities were moved further down the hierarchy, leaving senior management free for strategic decions making.

In 1977, Abraham Zaleznik identified a difference between leaders and managers. He describes leadershipleaders as visionaries who inspire. They care about substance. Whereas managers are claimed to care about process, plans, and form. He also claimed in 1989 that the rise of the manager was the main factor that caused the decline of American business in the 1970s and 80s. Lack of leadership is most damaging at the level of strategic management where it can paralyze an entire organization.

According to Corner, Kinichi, and Keats, strategic decision making in organizations occurs at two levels: individual and aggregate. They have developed a model of parallel strategic decision making. The model identifies two parallel processes both of which involve getting attention, encoding information, storage and retrieval of information, strategic choice, strategic outcome, and feedback. The individual and organizational processes are not independent however. They interact at each stage of the process.

1.3. Reasons why strategic plans fail

There are many reasons why strategic plans fail, especially:

- Failure to understand the customer
    - Why do they buy
    - Is there a real need for the product
    - inadequate or incorrect marketing research
- Inability to predict environmental reaction
    - What will competitors do
    - Fighting brands
    - Price wars
    - Will government intervene
- Over-estimation of resource competence
    - Can the staff, equipment, and processes handle the new strategy
    - Failure to develop new employee and management skills
- Failure to coordinate
    - Reporting and control relationships not adequate
    - Organizational structure not flexible enough
- Failure to obtain senior management commitment
    - Failure to get management involved right from the start
    - Failure to obtain sufficient company resources to accomplish task
- Failure to obtain employee commitment
    - New strategy not well explained to employees
    - No incentives given to workers to embrace the new strategy
- Under-estimation of time requirements
    - No critical path analysis done
- Failure to follow the plan
    - No follow through after initial planning
    - No tracking of progress against plan
    - No consequences for above

- Failure to manage change
    - Inadequate understanding of the internal resistance to change
    - Lack of vision on the relationships between processes, technology and organization
- Poor communications
    - Insufficient information sharing among stakeholders
    - Exclusion of stakeholders and delegates

1.4. Criticisms of strategic management

Although a sense of direction is important, it can also stifle creativity, especially if it is rigidly enforced. In an uncertain and ambiguous world, fluidity can be more important than a finely tuned strategic compass. When a strategy becomes internalized into a corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. An example of this is marketing myopia.

Many theories of strategic management tend to undergo only brief periods of popularity. A summary of these theories thus inevitably exhibits survivorship bias (itself an area of research in strategic management). Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. Populism or faddishness can have an impact on a particular theory's life cycle and may see application in inappropriate circumstances. See business philosophies and popular management theories for a more critical view of management theories.

In 2000, Gary Hamel coined the term **strategic convergence** to explain the limited scope of the strategies being used by rivals in greatly differing circumstances. He lamented that strategies converge more than they should, because the more successful ones get imitated by firms that do not understand that the strategic process involves designing a custom strategy for the specifics of each situation.

2. STRATEGIC MANAGEMENT

2.1. Processes

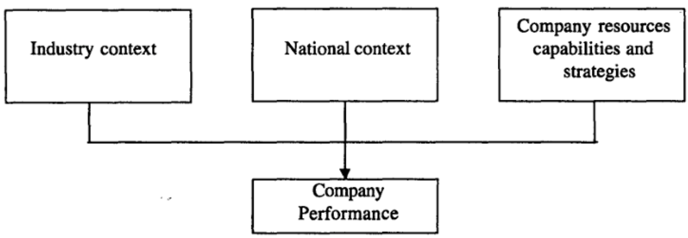
Conceptual Framework for Strategic Management

Strategic management deals with decision making and actions which determine an enterprise's ability to excel, survive or die by making the best use of a firms' resources in a dynamic environment. The main purpose of study of strategic management is to examine why some organizations succeed while others fail and yet others completely change.

The top management is mainly responsible for providing a sense of direction and guiding future course of action for any firm. Strategic management deals with long-term decisions taken by top management which gives overall direction to the organization. Strategic Management provides a cooperative, integrated and enthusiastic approach for tackling problems and realising opportunities.

An enterprise's success mainly depends on three broad factors:

• The industry, it belongs to.
• The nation, it is located and.
• Its own resources, capabilities and strategies.



Pic.1. Main factors of company's success

Industry: Some industries are profitable than others due to industry attractiveness. A company in attractive industry will achieve success compared to a firm in a less attractive industry. During the last decade software industry is more profitable than pharmaceutical industry.

Nation: The country also influences the competitiveness of companies based within the nation. Some countries enjoy competitive advantage with regard to certain industries. For example, the world's most successful automobile and consumer electronics companies are located in Japan. The most successful pharmaceutical companies are located in U.S. and Switzerland. Many of the successful financial services companies are located in the United States and Great Britain. The success or failure of individual firms depends on national competitive advantage.

Company: Firms' resources, capabilities and strategies are, by far, the strongest reasons for the success or failure of the firm. Some firms thrive even in less attractive industry whereas some firms perform poorly inspite of being in profitable industry. Often one comes across wide variation in the performance of companies within the same industry and enjoying same national competitive advantage.

Strategic management tends to develop a generalist approach to managerial problems and it enables one to view organizational issues in its totality.

Analytical techniques and skills are needed for developing and exploiting strategies successfully. Understanding strategy is the first step in strategic management process.

Definitions:

• Strategy is "a unified comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved"-Glueck.

• Strategy is "a determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals"-Alfred Chandler.

• Strategic management is "a stream of decisions and actions, which leads to the development of an effective strategy or strategies to help achieve corporate objectives."- Glueck.

Basically these definitions assume that strategy is an outcome of rational planning.

Henry Mintzberg holds a different view about strategic management process. According to him, strategies can emerge from within an organization without any formal plan. Strategies may emerge from the grassroots of the organization in response to unforeseen circumstances. Strategy is more than what a company plans to do; it is what the company does actually. In Mintzberg's opinion emergent strategies are more successful than other types. In practice, the strategies of several organizations are probably a combination of the 'intended' and the 'emergent' types.

Strategic management is a combination of three main processes which are as follows:

Strategy formulation

- Performing a situation analysis, self-evaluation and competitor analysis: both internal and external; both micro-environmental and macro-environmental.
- Concurrent with this assessment, objectives are set. These objectives should be parallel to a timeline; some are in the short-term and others on the long-term. This involves crafting vision statements (long term view of a possible future), mission statements (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic), and tactical objectives.
- These objectives should, in the light of the situation analysis, suggest a strategic plan. The plan provides the details of how to achieve these objectives.

This three-step strategy formulation process is sometimes referred to as determining where you are now, determining where you want to go, and then determining how to get there. These three questions are the essence of strategic planning. SWOT Analysis: I/O Economics for the external factors and RBV for the internal factors.

Strategy implementation

- Allocation and management of sufficient resources (financial, personnel, time, technology support).
- Establishing a chain of command or some alternative structure (such as cross functional teams).
- Assigning responsibility of specific tasks or processes to specific individuals or groups.
- It also involves managing the process. This includes monitoring results, comparing to benchmarks and best practices, evaluating the efficacy and efficiency of the process, controlling for variances, and making adjustments to the process as necessary.
- When implementing specific programs, this involves acquiring the requisite resources, developing the process, training, process testing, documentation, and integration with (and/or conversion from) legacy processes.

Strategy evaluation

Measuring the effectiveness of the organizational strategy. It's extremely important to conduct a SWOT analysis to figure out the strengths, weaknesses, opportunities and threats (both internal and external) of the entity in question. This may require to take certain precautionary measures or even to change the entire strategy.

2.2. General approaches

In general terms, there are two main approaches, which are opposite but complement each other in some ways, to strategic management:

- **The Industrial Organizational Approach**
  - based on economic theory – deals with issues like competitive rivalry, resource allocation, economies of scale,
  - assumptions – rationality, self discipline behaviour, profit maximization.
- **The Sociological Approach**
  - deals primarily with human interactions,
  - assumptions – bounded rationality, satisfying behaviour, profit sub-optimality. An example of a company that currently operates this way is Google.

In most (large) corporations there are several levels of strategy. Strategic management is the highest in the sense that it is the broadest, applying to all parts of the firm. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are often functional or business unit strategies.

Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility.

Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or strategic business units (called SBUs). A **strategic business unit** is a semi-autonomous unit within an organization. It is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters. Each SBU is responsible for developing its business strategies, strategies that must be in tune with broader corporate strategies.

The “lowest” level of strategy is **operational strategy**. It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. Operational level strategy was encouraged by Peter Drucker in his theory of management by objectives (MBO). Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies. **Business strategy**, which refers to the aggregated operational strategies of single business firm or that of an SBU in a diversified corporation refers to the way in which a firm competes in its chosen arenas.

Corporate strategy, then, refers to the overarching strategy of the diversified firm. Such corporate strategy answers the questions of "in which businesses should we compete?" and "how does being in one business add to the competitive advantage of another portfolio firm, as well as the competitive advantage of the corporation as a whole?"

2.3. A Model of Strategic Management Process

Strategic management process involves strategic planning, strategy implementation and strategic control. Strategic planning involves thorough study of internal and external environmental factors relevant for the organization. It results in mission, purpose, objectives, policies and programmes. Hence the five steps in strategic management process are as follows.

• The choice of corporate mission and corporate goals.

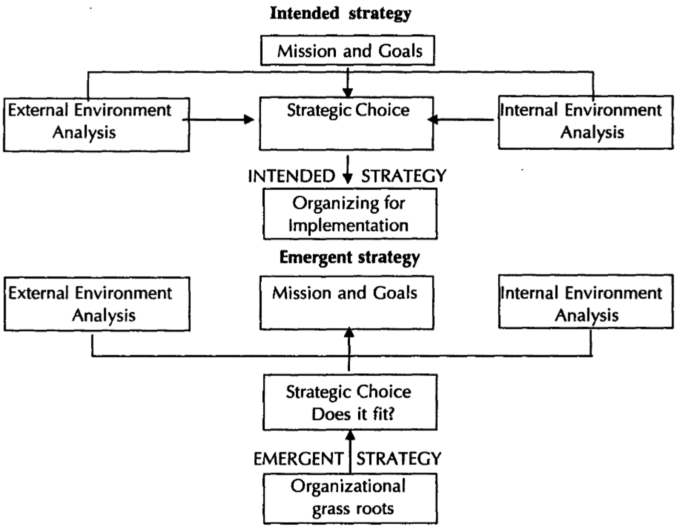
• Analysis of external competitive environment to understand opportunities and threats.

• Analysis of the organization's internal operating environment to understand the firms' strengths and weaknessess.

• Selection of strategy to build on the organizations' strengths and correct weaknesses so as to take advantage of external opportunities and counter external threats.

• Strategy implementation and control.

Defining the mission and main goals of the organization is the first step in strategic management process. The mission tells clearly why the organization exists and what it would be doing. Organizations set goals, which they hope to achieve in the medium to longterm basis. Normally organizations work with a hierarchy of goals such as sizeable market share, maximizing shareholders' wealth, profit and so on.



Pic.2. The steps of strategic management process

Policies act as guide in decision-making. Policies define an area within which a decision is to be made and ensure that the decision will be consistent with and contribute to objectives.

The next step in strategic management process is external environmental analysis, which aims to understand the opportunities and threats in the environment. In this stage, examination of three environments normally takes place, the industry environment in which the organization operates, the national environment and the macro environmental forces such as social, economical, government and legal, international and technological factors, which affect the organization.

Identifying strengths and weaknesses of the organization involves identification of quantity and quality of resources and distinctive competencies that help in building competitive advantage to achieve superior efficiency, quality, innovation and customer loyalty.

Finally, strategies are evolved at functional level, business level, corporate level and global level.

• Functional strategies are directed to improve the effectiveness of functional operations of the firm such as manufacturing, finance, R&D, marketing and human resources.

• Business level strategies lay emphasis on the way the firm positions itself in the market place to gain competitive advantage. The three generic business level strategies are:

1. Cost leadership;
2. Differentiation;
3. Focus strategy.

• Corporate level strategies enable organizations to maximize the long run profitability of the organization. Vertical integration (backward and forward integration), diversification, strategic alliances, acquisitions and joint ventures are examples of corporate level strategies.

Global level strategies are pursued by organisations while they expand their operations in international business so as to increase their profitability. International strategy, multidomestic strategy, global strategies and transnational strategy are some of the choices before strategists.

Strategy implementation consists of four steps namely:

• Designing appropriate organizational structure.
• Designing control systems.
• Matching strategy, structure and controls and.
• Managing conflicts, politics and change.

Structure involves allocation of duties, responsibilities and decision-making authority and integration among the ranks and files of organization. It is widely believed that structure follows strategy. Some of the options available in this regard are tall structure, flat structure, centralized decision making authority, decentralized decision making authority, autonomous units and semi autonomous units and different mechanisms for integration of subunits.

"The purpose of strategic control is to determine whether the given strategy is effective in achieving organizational objective and moving on the right track. The organizational control may be classified as market control, output control, and bureaucratic control. Control system requires development of perceptible organizational culture. Besides, the type of reward and incentive systems also needs to be decided and established towards this end.

Conflict is common in organizations. The reasons for conflicts are resource sharing and different agendas of different subgroups within organizations. Power struggles anci coalition building are consequences of such conflicts. The organizational politics plays a key role in strategy implementation. The power and conflict will cause organizational inertia and prevent organizational change. Power, politics, conflict, and inertia should be analyzed and managed effectively so that mission could be fulfilled and change could be introduced smoothly.

Strategic management is an ongoing process. Periodic feedback reveals whether objectives are attainable or implementation is poor or not. The feedback is fed into next round of strategic formulation and implementation. It may reaffirm objectives or suggest changes in goals and objectives.

2.4 Approaches to Strategic Decision Making Process

There are three approaches to strategic decision-making process. They are as follows.

- Rational – analytical;
- Intuitive – emotional;
- Behavioral – political.

Rational Analytical Model assumes that decision· maker is always intelligent and rational. He is fully aware of all the alternatives and their consequences upon implementation to maximize advantages. In real life, the decision makers face information overload and are not aware of all the consequences.

Intuitive- Emotional Model assumes that the decision maker prefers 'gut feeling', reflective thinking and instinct using unconscious mental processes. Managers who endorse this approach, point out that intuitive judgment may lead to better decisions than optimizing techniques.

Strategists adopt a synthesis of all the three approaches. So strategic decisions are made in a typically human way using the rational conscious analysis, intuitive and 'unconscious gut feeling' in the light of varied political realities.

According to Senge, the main activities undertaken by a learning organization are:

- Systematic problem solving;
- Experimentation with new approaches;
- Learning from new experiences and from others and;

• Transferring knowledge quickly and efficiently throughout the organization.

Employees at all levels are involved in strategic management process in a learning organization. They do environmental scanning for vital information; understand shifts in environment in order to improve work methods, procedures and evaluation techniques. For example at Xerox, all employees are trained in small group activities and problem solving skills, which enabled the company to come out with improved products.

3. MISSIONS AND GOALS

Mission statement embodies an organization's purpose of existence.

Definitions:

1. Thompson defines mission as "the essential purpose of the organization, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy".

2. Wheelan and Hunger view that "mission is the purpose or reason for the organization's existence".

3. According to John Pearce "mission .is an enduring statement of purpose that distinguishes one firm from other similar firms."

4. In Drucker's opinion, "mission focuses the organization on action. It defines the specific strategies needed to attain goal. It creates a disciplined organization... The business purpose and business mission are so rarely given adequate thought, is perhaps the most important single cause of business failure and business frustration".

Any organization, in order to survive and achieve success, must have a sound set of beliefs on which it premises all its policies and actions:

• A mission statement is full of enthusiasm.

• A mission statement is marked by grandeur.

• It is unique and personal.

• It is not time bound because the future envisioned in a mission statement cannot be achieved in a day.

A mission statement incorporates the basic business purpose and the reason for its existence by rendering some valuable functions for the society.

An effective mission statement should possess the following characteristics.

1. Feasible: The mission should be realistic and achievable. For instance, UTI declared its mission as "to encourage saving and investment habits among common man". By providing tax relief under Sec 88c, the investment upto 1 lakh in UTI is exempted from income tax. Hereby common man's savings habit is encouraged by UTI.

2. Precise: A mission statement should not be narrow or too broad.

3. Clear: A mission statement should lead to action. B5NL'5 mission of 'connecting India' leads it to a variety of service with varied tariff structure so as to cater to the preferences of mobile phone users.

4. Motivating: The mission should be motivating for the employees to be inspired for action. For example India Post's mission is to 'exceed the expectations of the customer' with dedication, devotion and enthusiasm. So customer service has become a value and it is inspiring and motivating the postal employees.

5. Distinctive: A mission statement wiII indicate the major components of the strategy to be adopted. The mission should be unique. When HCL defines its mission as 'to be a world class competitor', it creates a unique place in the minds of Indian personal computer users who come across personal computers of MNCs on most of the occasions.

6. Indicates major components of strategy: "The mission statement of IOC emphasizes petroleum refining, marketing and transportation with international standards and modern technology. It indicates that IOC is going to adopt diversification strategy in future.

The mission provides direction to insiders and outsiders on what the firm stands for. It is the guiding star for any firm.

Mission contributes to strategic management in many ways.

1. It provides direction to corporate planning.

2. It clarifies the firm's aspirations.

3. It communicates to employees at various levels the direction in which they should move.

4. It focuses on business purpose and long-term objective of the firm.

Objective and goals are used interchangeably in management literature but the recent strategic management literature shows a subtle distinction between these two terms. Objective is the end, which the organization tries to achieve through its operations. 'Goal' is an open-ended statement, which does not quantify what needs to be achieved, and the time frame for completion. So 'growth' is a goal whereas an objective is to 'increase growth by 10% in terms of market share and sales over last year'. Usually the long-term goals and short-term objectives are derived from mission.

Objectives form the basis for all other functional decisions such as finance, manufacturing, marketing and human resource. Objectives are split into business wise objectives and functional targets and performance targets. Organizations follow multiple objectives such as:

- Growth;
- Profitability;
- Market Share;

• Productivity;
• Technology;
• R&D and Innovation;
• Corporate Social Responsibility;
• Image;
• Employee Satisfaction.

Growth in sales, in profits and assets are indicators of a firm's financial soundness and long-term welfare. Reliance Industries is a typical example, for growth objectives Growth of a firm is ensured if growth in sales, profits and assets are ensured.

Profitability has several dimensions and it is measured in terms of return on investment, net worth, assets, revenue and earning per share. With profitability objective, the firm examines the profit potential of present portfolio and reallocates accordingly. Some of the specific issues, clarified are as follows:

• How are the present investments of the firm behaving?
• What is the rate of return?
• How is the spread of the investment?

Social responsibility includes setting objectives in community welfare, public welfare and environmental protection. Tata Group has objectives relating to society. They are involved in rehabilitation of handicapped children.

Peter Drucker has recommended that companies should set goals and objectives in the following areas.

1. Return on Investment;
2. Market Share;
3. Innovation;
4. Productivity;
5. Physical and Financial Resources;
6. Manager Performance and Development;
7. Worker Performance and Attitude;
8. Social Responsibility.

In recent times, Management By Objectives (MBO) receives much attention from the strategists.

Formulation of objectives and goals is a complex process. The strategists should consider the four factors while evolving objectives.

1. The forces in the environment: The government regulations, powerful consumer groups, trade unions and influential suppliers exert enormous pressure on organization.: The stakeholders, their priorities and views influence objective setting.

2. Realities of firm's resources and power relationship: Material and human resource are always scarce and powerful dominant groups try to take upper hand and exercise power over other groups in framing objectives of their choice and allocate scarce resources in their favor. Internal power relationship influences objective setting.

3. The values of top management: Values are enduring beliefs, about what is good or bad, desirable or undesirable. The top managements may have entrepreneurial value or a philanthropic value or social responsibility value which in turn will influence their goal setting.

4. Past Strategies: Strategies and objectives followed in the recent past is likely to have deep impact and radical deviation from them will not be possible. The changes from current objectives will be marginal and incremental in nature.

Objectives are important for strategic management for the following reasons:

1. Objectives help to relate the organization in the environmental context. It helps to attract people with identitical frame of mind.

2. Objectives help to coordinate decisions. All employees are aware of the objectives and stated objectives prove to be a means of coordination.

3. Objectives serve as standards of appraising organizational performance. They serve as a basis for evaluating success or failure of organization.

4. ENVIRONMENT

Environment of any organization can be considered as "the aggregate of all conditions, events and influences that surround and affect it". Environment is complex as it consists of a lot of factors arising from different sources. The nature of environment is one of dynamic as it keeps changing continuously. The impact of environment on organization is deep and far reaching.

A business firm functions as part of the environment and it adapts itself to the realities of the environment. The firm searches for opportunities and threats present in the environment. So strategists consider study of the environment as the central task of strategic planning and they try to find out the correct fit between the firm and its environment.

The main purpose of environmental survey is to learn about events and trends in the environment and to identify the opportunities and threats in the environment and the favorable and unfavorable factors in the environment.

The economic reforms, which were introduced in the wake of liberalization, have brought about a sea change in the business environment in India. It has resulted in free market based economy and Indian business firms are forced to operate in a competitive market. The business firms have to cope up with change and environmental uncertainty.

Environmental factors can be classified as:

(j) Macro environmental factors;

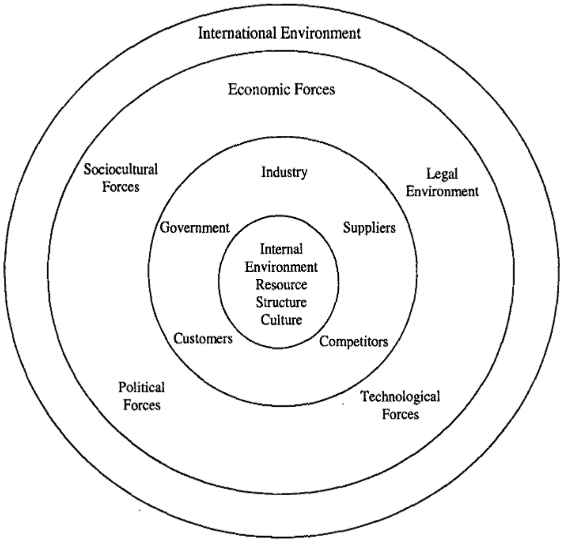
(ii) Factors, which are specific to the giver. business i.e., task environment.

The constituents of macro environmental factors are demographic environment, socio cultural environment, economic environment, political environment, natural environment, technology environment and legal environment.

The environmental factors which are specific to task environment are market, industry, competition, supplier and consumer.

Macro Environmental Factors

Demographic factors such as population growth, age composition, family size, family life cycle, income level and religion have significant implications for business. The demographic environment differs from country to country, region to region and from time to time. Both developing and developed countries face the problem of declining birth rate which is described by Drucker as 'national suicide'



Pic.3. Environmental factors of the organization

Technological Environment

Technology proves to be a strategic weapon in highly competitive environment. Technology has far reaching impact on business in terms of improved products, improved processing, usage of new raw materials and new product development.

Telecom Industry and computer industry have changed fast due to rapid technology changes. So business firms must examine the relative merits and cost effectiveness of alternate technologies, technological changes taking place in the industry and the byproducts emanating from new technologies. Government regulation is also another aspect, which needs close monitoring in this regard. In modern days, business opportunities are closely linked to technology so they have to harness technologies and adapt them suitably. The business firms should forecast technological trend and select appropriate technology for the product.

Social-Cultural Environment

Socio-Cultural environment consists of culture, traditions, beliefs, values and lifestyles of people in a society. These factors determine what the people will buy and consume. Culture is the result of complex factors such as religion, language, education and upbringing. Core cultural values are usually deep rooted and cannot be changed easily. There are secondary cultural values such as faiths and practices which could be changed, moulded and manipulated easily.

Seven socio-cultural trends that are observed are as follows:

1. Increasing awareness of environmental decay, the need for recycling and conservation of biodiversity are no more mere slogans.

2. Growth of senior citizens ie., people above 55 years are growing as a separate market segment with different set of attitudes and ir.lterests.

3. The decline of mass market and e.mergence of niche markets and mass customisation are new marketing reality.

4. The lifestyle changes due to PCs, TVs, mobiles and cables enabled the skilled employees to quit overcrowded cities in favor of suburban areas.

5. The household composition changed to more of no children families and single parent families.

6. The workforce diversity (due to the rapid growth of 18-35 age group) is noticed with more women and minority in the workforce.

Industry and business depend heavily on economic environment. The survival of business and industry mainly depends on the purchasing power of the people and purchasing power is largely a product of economic environment.

Some of the factors of economic environment are:

1. The economic structure adopted i.e. capitalistic, socialistic or mixed economy.

2. The economic policies like industrial policy, fiscal policy and monetary policy.

3. The economic planning like five year plans, annual budgets etc.

4. Infrastructure factors like banks, transportation methods and financial institution and communication facilities.

5. Economic indices like money supply, disposable personal income, savings rate, GNP, interest rate, exchange rate, tax rate, inflation rate, growth rate of the economy, income distribution, balance of payment position,

wholesale price index etc. GOP is the nation's annual total production of goods and services value and it influences consumer spending.

The impact of political environment on industry and business is enormous. The economic environment is a by-product of the political environment. The form of government in position is an important aspect of political environment and political stability is a must for economic growth. Apart from these factors, media, social and religious organizations, pressure groups are also a part and parcel of the political environment.

The government plays a crucial role as the planner, promoter and regulator of economic activity. The political philosophy of the ruling party at the Center and the political philosophy of the State influence the government's decision related to business. Since Independence, political stability and acceptance of democratic form of government are major features of our political environment. The new experiment is pursued with coalition government in recent times.

International environment includes factors such as globalization, global economic forces, global trade, global financial system, global demographic pattern, global market, competitiveness, global information system, global legal system, global technological standards and global human resource. WTO, which has come into force from 1995, has exerted powerful influence over international environment.

Supplier includes supplier of raw material, components, finance, energy, human resource, infrastructure facilities and subassemblies. Suppliers determine the cost, reliability and availability of different factors of production. Suppliers, with their bargaining power, are considered to be a major force shaping competition in an industry and influence profit margin of any unit. Sometimes, the supplier may turn out to be a direct competitor through forward integration. The trade off between supplier and outsourcing of supplies is a crucial issue which firms decide because their implications on cost and quality is substantial.

Environmental scanning plays a key role in strategy formulation by analyzing the strengths and weaknesses and opportunities and threats in the environment. Environmental scanning is defined as 'monitoring, evaluating and disseminating of information from external and internal environments to managers in organizations so that long term health of the organization will be ensured and strategic shocks can be avoided.

In internal benchmarking process, operations and processes of same organizations are considered. It enables data collection and sensitive information easy from across different functions. Lack of real innovation is the major drawback of this type of benchmarking.

External benchmarking involves studying the other firms and their processes and activities. The main difficulty with external benchmarking lies in comparability of data and information, the credibility of findings so arrived at.

International Benchmarking

High performers all over the world are identified and their practices and processes are studied in this type of benchmarking. This is possible due to globalization and advances in information technology. Such international companies need to be thoroughly scrutinized because of national differences.

The success of benchmarking lies in its thorough analysis. It involves studying mission statement, current performance and identifying areas for improvement. Based on such study, the firms copy best practices of competitors and modify their mission statements, process and performance.

Analysis of macro environment gives rise to common information whereas industry analysis provides structural realities, specific and unique information, which are required for strategy formulation. Industry analysis brings to light the industry attractiveness and the firm's competitive position within the industry. The industry's attractiveness is mainly determined by its growth potential and inherent profitability of the industry. Analysis of industry and competition helps not only strategy formulation but also helps in building competitive advantage.

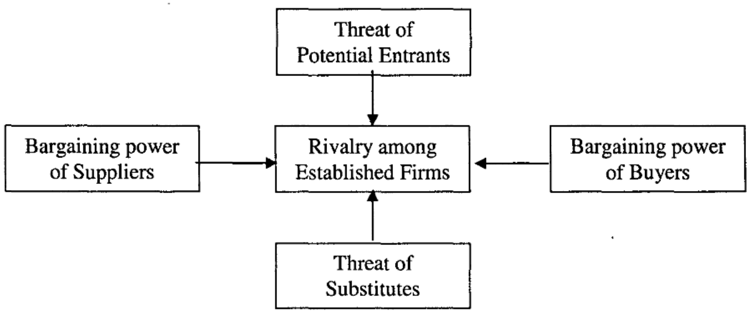
5. PORTER'S FIVE FORCES MODEL AND STRATEGIC GROUP

An industry consists of a group of companies offering products or services, which are similar and serve as substitutes for each other. Strategists analyze competitive forces within an industry to identify opportunities and threats facing a firm. A model for analyzing the industry environment is developed by Michael. E. Porter: an authority on competitive strategy. This model is known as Five Forces Model and it helps managers to identify and analyze the competitive forces in an industry environment.

The five forces, which are focused in this model, are as follows:

- Threat of New Entrants;
- Bargaining power of Suppliers;
- Bargaining power of Buyers;
- Threat of Substitutes ;
- Rivalry among Existing Firms.

The collective strength of the five forces determines the ultimate profit potential in the industry. If the forces are stronger, then the ability of company to raise price and earn high profits is limited. Hence, a high competitive force can be regarded as a threat and a low competitive force can be considered as an opportunity as it allows a company to earn high profits. The strategists should recognize opportunities and threats and formulate suitable strategies. In addition, the company should influence one or more of such forces in its favor through appropriate strategy.



Pic. 4. Five competitive forces on industry

Entry of potential competitors to an industry is a threat to the profitability of established players. In any industry, new entrants bring in new capacity, substantia: resources and aggressiveness to gain market share. The established companies try to discourage potential competitors from entering to an industry by raising the height of barriers and this obstruction makes it difficult for a new company to enter an industry. The concept of barrier implies a significant cost of joining an industry. The high cost keeps away potential competitors from entry even when the industry returns are high. Sources of possible barriers to entry are identified as follows.

1. Economies of Scale: Economies of scale in production and sale give a Significant cost advantage for existing players over a new rival. Economies of scale is obtained through cost reductions and mass production, discount on bulk purchase of raw materials and advertising. If these cost advantages are significant, the new entrants are discouraged to enter because they will have to take a high risk. Established companies, with economies of scale, have. less threat of new entry. Intel has a significant cost advantage over its new rivals due to scale economies in production and sale of microprocessors.

2. Product Differentiation: A company creates brand loyalty through continuous advertising of brand, product innovation, customer service and high product quality. The task of breaking down customer loyalty is too costly and reduces threat of new entrants.

3. Cost Advantage: Established firms often acquire cost advantages due to their access to raw materials, cheaper funds, superior production techniques, patents, secret processes, managerial skill, government subsidies, assets acquired in pre inflation prices and advantages arising from learning curve effects. The cost advantages of established companies reduce the threat of new entrants. Microsoft's MS-DOS Operating System for IBM type PCs gave a key advantage to Microsoft over its potential rivals;

4. Capital Requirements: The necessity to invest substantial resources for creating infrastructure facilities, inventories and to wipe out preliminary expenses in industries is a barrier to new entrants. Massive investments required in industries such as Aircraft and Mineral extraction prove to be a significant barrier for new entrants. Xerox created a capital barrier by offering to lease its copiers. So new entrants had to face the problem of maintaining huge sums of cash to finance the leased copiers.

5. Access to Distribution Channels: Small firms often find it difficult to acquire shelf space for distribution of their products because large retailers often give preference to established firms. The established firms are prepared to pay for advertisement needed to create customer demand. TIMEX created its own distribution channels for its watches, as it was not able to get shelf space among established players.

6. Government Policy: The government can limit entry into an industry through licensing requirements, air and water pollution standards and safety regulations. The mandatory requirement of effluent treatment plant in sugar mill, soft drinks unit, milk processing units and plastic manufacturing units has escalated the cost of production in India. This has restricted the entry of potential competitors.

7. **Brand Identity:** Building a favorable brand image is tough for new comers. Hyundai, Telco spent heavily on advertising to overcome consumer preference for Maruti passenger cars.

Buyers are viewed as a threat when they force the companies to charge low prices or demand higher quality and better service with their bargaining power. Buyers can be viewed as weak, if they give the company the opportunity to raise prices and make more profits. According to Porter the buyers are powerful in the following circumstances.

• The suppliers are more in number but the buyers are few.

• The buyers buy in large quantity.

• More number of alternative suppliers and their products are not standardized and undifferentiated (Automakers get attractive discounts from steel suppliers).

• The cost of changing supplier is not much.

• The supplier depends on the buyer for a large percentage of their total orders.

• The purchased item is not important to the final quality or price of buyer's product.

• The buyer has the potential to integrate backward by producing the product itself.

• The buyers can use the threat of vertical integration as a measure for forcing down prices.

Common exit barriers are as follows:

• Investment in plant and machinery has no alternative use and cannot be sold off.

• The cost of exit is high. The terminal benefits of redundant workers are high.

• Strategic interrelationship between business units could be the reason. A low return unit may provide input for high-return units so the firm may not like to quit low-return business.

• Emotional attachment to the business may ruin if the company does not exit the business for sentimental reason.

The companies resort to price war to utilize its capacity and secure orders.

• The rivals are varied with respect to strategies, origin and personalities and they have different ideas about how to compete and continuously run head-on into each other in the process. Finally the intensity of rivalry is determined by the interaction between competitive structure, demand conditions and exit barriers and it may constitute a threat or opportunity.

Limitations of strategic group model and Porter's 5 Forces Model:

1. The two models provide a static picture of competition which overlooks the possibility of innovation in business.

2. Critics of Five Forces Model are of the view that innovation brings in new products, processes and enormous profits. Innovation completely restructures and reshapes industry structure. (eg) Wall Mart, Apple Computer, U.S. Steel Industry, Dell Computers. Dramatic changes took place in U.S. computer industry and leading players have lost their business to new players with innovative products. Richard D Aveni argues that many industries are hyperactive and hyperactive industries are marked by continuous innovation. Under such circumstances the industry structure will be continuously revolutionalised and Strategic Group and 5 Forces Model will have limited application.

3. No attention to individual differences of companies is paid in the models but they overemphasize the importance of industry and strategic group structure.

4. Many studies have pointed out that very weak evidence of a link between strategic group membership and company profit rates inspite of the fact that strategic group model predicts otherwise. These research studies point out that resources and capabilities are more important than industry or group.

5. Five Forces Model assumes a clear, recognisable industry. The possibility of drawing conclusions diminishes with growing complexity of industry definition.

6. The issues like 'partnership' which is a growing phenomenon are not addressed in this model.

7. The Five Forces model does not consider the possibility of industry structure being altered by large business organizations in airline industry.

By strategic type, we mean that a strategic orientation which is a combination of structure, culture and process consistent with that strategy. The different strategic orientation is the reason behind the varying behavior of firms facing similar environment. The difference in their behavior to similar situation is attributable to their different strategic orientation.

In order to examine the intensity of competition and to predict the moves of firms within strategic groups one has to familiarize with different strategic types.

Miles and Snow have classified the strategic types into:

- Defenders
- Prospectors
- Analyzers
- Reactors The strategic types have the following characteristics.

Defenders: The defender strategic type companies have a limited product line and they focus on efficiency of existing operations. Their preoccupation with cost reduction does not encourage them to try innovative ideas in new areas.

Prospectors: These firms with broad product items, focus on product innovation and market opportunities. Their too much emphasis on creativity makes them somewhat inefficient. They are preoccupied with creativity at the expense of efficiency.

Analyzers: Analyzers are firms, which operate in both stable and variable markets. In stable markets the companies emphasize efficiency and in variable markets they emphasize innovation, creativity and differentiation.

Reactors: The firms, which do not have a consistent strategy to pursue, are called reactors. There is an absence of well-integrated strategy-structure-culture relationship. Their strategic moves are not integrated but piecemeal approach to environmental change makes them ineffective.

Competitive Changes During Industry Evolution

Industries pass through various stages such as growth, maturity and decline. The competitive forces act upon these stages and give rise to opportunities and threats for an industry. A strategist should be aware of these developments during strategy formulation and anticipate them in advance.

The industry life cycle model is used for analyzing the effects of industry evolution on competitive forces. Based on the industry life cycle model, the industry environment could be identified as follows:

- Embryonic industry environment;
- Growth industry environment;
- Shakeout environment;
- Mature industry environment and;
- Declining industry environment.

An embryonic industry is one which is just beginning to develop. Personal computer in 1980 is a good example. Growth is very slow at this stage. Buyers are unfamiliar with the product. Prices are high since economies of scales are not achieved yet. Distribution channels are not developed fully.

Entry barrier is mainly based on access to technological know-how. Rivalry is based on the firms' ability to educate the customers, to develop distribution channels and to improve product design rather than price. Embryonic industry may evolve due to a company's innovative efforts (eg) Apple Computer, Xerox. Such companies capitalize on the opportunities due to abse'nce of rivalry.

Growth stage is not sustained continuously and the shakeout stage follows necessarily. In the shakeout stage, demand is saturated and demand is not from first time buyers but from replacement demand. During this stage, rivalry between companies is very intense and capacity is added to the level of excess capacity. Price-cutting and price war emanates from excess capacity.

In semi-conductor industry, capacity was doubled in DRAMS (dynamic random access memory) and the excess capacity that was built led to price-cutting and price war.

The Industry life cycle model is only a generalization. They do not follow the pattern as explained in fig. 5.5. In some industries embryonic stage may be skipped (personal computer industry). Some industries may be recovered from declining stage through innovation as it happened in bicycle industry. The growing awareness of air pollution all over the world has brought back bicycle industry to life. The time duration of different stages will vary from one industry to another. In some industries some stage may be skipped. The electronic industry due to the innovation of transistor (replaced vacuum tubes) is said to be in growth stage for a considerable period. The industry life cycle model should be studied as a general framework.

According to Michael Porter, the nation's competitive position in any industry depends on factor conditions, industry rivalry, demand conditions and related and supporting industries.

The country will have competitive advantage in any industry subject to the following conditions.

1. The country has right mix of basic and advanced factors of production to support the industry,

2. Intense rivalry among domestic companies forces them to be efficient,

3. Demanding consumers and demand conditions force the local industry to be efficient and

4. Low cost and high quality inputs and complementary products are supplied by related and supporting industries which are internationally competitive with respect to the given industry.

Hyper competition occurs in any industry due to intense environmental uncertainty, which makes competitive advantage superficial and temporary. With globalization, new entrants and foreign players make their way into hitherto protected markets. Distribution channels also vary from country to country.

6. COMPETITIVE ADVANTAGE

In environmental scanning, an effort is made to study opportunities and threats; and in organizational appraisal, internal environment is scanned in order to identify strengths and weaknesses. No doubt, the industry structure influences a firm's profit. However many other factors also affect the firm's profit. Why do some companies perform better than others? What is the basis for competitive advantage of individual firms? The competitive advantage has four dimensions namely. efficiency, quality, innovation and customer responsiveness. These dimensions of competitive advantage are developed by building competencies, resources and capabilities. It is not enough the firms develop competitive advantage once. The competitive advantage should be sustained throughout and should not be lost on any account.

Three critical issues are relevant in this regard.

• What are the factors that influence competitive advantage?

• Why do successful companies lose their competitive advantage?

• How can companies avoid failures and sustain competitive advantage over time?

Competitive Advantage: Low Cost and Differentiation:

A company is said to have attained competitive advantage when the profit rate of a company is higher than industry average. Return on Sales (ROS) and Return on Assets (ROA) are ratios calculated to determine profit rate. Gross Profit margin is the basic deciding factor of a company's profit rate, which is simply the difference between total revenue and total cost divided by total cost.

Gross Profit Margin = (Total Revenue- Total Costs)/Total Costs = = [(Unit Price x Units Sold) – (Unit Cost x Units Sold)]/(Unit Cost x Units Sold).

If the gross profit margin is to be higher, the following three conditions should be satisfied.

1. The unit price of the company must be higher than that of other average companies.

2. The unit cost of the company must be lower than that of other average companies.

3. The company must have a lower unit cost and a higher unit price.

Companies resort to premium pricing when they charge high unit price than the industry average. The companies add value to the product from the consumer's perspective in order to charge premium price. Besides, they go for differentiated products in terms of quality, design, after sales service and delivery time.

Low cost and differentiation are classified as generic business level strategies as they represent the two basic ways of attaining competitive advantage. Companies, which go for low cost strategy, do everything possible to reduce unit costs. Firms, which opt for differentiation strategy, do everything to differentiate product from that of other players.

Efficiency

In a business organization, inputs such as land, capital, raw material, managerial know-how and technological know-how are transformed into outputs such as products/ services. Efficiency is measured as a ratio between the costs of inputs required to produce a given output.

Innovation means new ways of doing things. Innovation results in new knowledge, new product development, new production processes, management systems, organizational structures and strategies in a company. Innovation offers something unique, which the competitors may not have, and allows the company to charge high price. Photocopiers developed by Xerox and Sony's Walkman are typical examples of successful product innovation of pioneering companies.

Customer Responsiveness

Companies are expected to provide customers what they are exactly in need of by understanding customer needs and desires. Achieving superior customer responsiveness involves giving customers value for money. Besides, development of new products with features, which are absent in the existing products in the market, should be given attention to satisfy customer needs.

Distinctive competencies arise from two sources namely:

- Resources and;
- Capabilities.

Caterpillar and Toyota achieved success through distinctive competencies such as after sales service and world class manufacturing process respectively.

A resource is an asset, competency, process, skill or knowledge. Resources may be classified as tangible such as land, buildings, plant and machinery and intangible such as brand names, reputation, patents, know-how and R&D. Resources are financial physical, human, technological and organizational in nature. A resource is a strength which provides tile company with competitive advantage and it has the potential to do well compared to competitors. A resource becomes a weakness if it does poorly compared to competitors. The strength and weakness of resources can be:

- The company's past performance;
- The company's key competitors and;
- The industry as a whole.

The extent to which it is different from that of the competitors, it is considered as a strategic asset.

Distinctive competencies are those capabilities which are superior to those of other competitions. In order to call anything a distinctive competency it should satisfy three conditors.

1. Value: It should give a disproportionate contribution to customer perceived value.
2. Unique: It should be unique compared to competitors.
3. Extendibility: It should be capable of developing new products. The distinctiye competencies are built around all functional areas. Exhibit 6.1 shows distinctive competencies in different functional areas (p. 87).

Evaluation of Key Resources

Barney has evolved VRIO framework of analysis to evaluate the firm's key resources. The following questions are asked to assess the nature of resources:

1. Value - Does it provide competitive advantage?
2. Rareness - Do other competitors possess it?
3. Imitability - Is it costly for others to imitate?
4. Organization - Does the firm exploit the resource?

A unique resource is one, which is not found in any other company. A resource is considered to be valuable if it helps to create strong demand for the product.

Technology related

Scientific research expertise; Product innovation capability Expertise in a given technology; Capability to use Internet to conduct various business activities

Manufacturing related

Low-cost production efficiency; Quality of manufacture; High use of fixed assets; Low-cost plant locations; High labor productivity; Low-cost product design; Flexibility to make a range of products.

Distribution related

Strong network of wholesale distributors/dealers; Gaining ample space on retailer shelves; having company - owned retail outlets; Low distribution costs; Fast delivery.

Marketing related

Fast, accurate technical assistance; Courteous customer service; accurate filling of orders; Breadth of product line; Merchandising skills; Attractive styling; Customer guarantees; clever advertising.

Skills related

Superior workforce talent; Quality control know-how; Design expertise; Expertise in a particular technology; Ability to develop innovative products; Ability to get new products to market quickly.

Organizational capability

Superior information systems; Ability to respond quickly to shifting market conditions; Superior ability to employ Internet to conduct business; more experience & managerial know-how.

Other types

Favorable image / reputation with buyers; Overall low cost; Convenient locations; Pleasant, courteous employees; Access to finance; Patent protection.

The purpose of any strategy is to achieve a competitive advantage. The term strategy refers to all types of strategies like global strategies, corporate strategy, business level strategy and functional level strategy. Companies build strategies on the basis of existing resources and capabilities and try to adopt strategies based on additional resources and capabilities to sustain their competitive position, Walt Disney's successful turnaround in 1984 was mainly based on existing resource base whereas Xerox's financial recovery was due to functional level strategy.

Durability of competitive advantage refers to the rate at which the firms capabilities and resource depreciate or become obsolete.

Companies try hard to sustain competitive advantage since every other company tries to develop distinctive competencies and gain competitive advantage. Durability depends on three factors:

- Barrier to imitation
- Capability of competitors and
- Dynamism of industry

Imitability refers to the rate at which others duplicate a firm's underlying resources and capabilities.

Tangible resources such as land, building and equipment are visible and imitable. Intangible resources like brand names are difficult to imitate and brand names represent the company's reputation. Similarly marketing and technological know-how are also intangible resources.

Dynamic industries are characterized by high rate of innovation and fast changes. In dynamic industries, product life cycle will be short and competitive advantage will not last for a long time. It gives rise to hyper competition. The consumer electronic industry and computer industry are typical examples of dynamic industries. The turbulence in computer industry environment has been contributed by continuous innovations of Apple Computers, IBM, Compaq and Dell.

7. STRATEGY FORMULATION

7.1. Situation Analysis

Strategy formulation is concerned with evolving a corporation's mission, objectives, strategies and policies. Strategy formulation starts with situation analysis, which involves assessing the strategic fit between external opportunities and internal strengths and external threats and internal weaknesses.

In this chapter situation analysis has been studied with three tools.

• SWOT Analysis;

• Strategic Factor Analysis Summary (SFAS) and;

• TOWS matrix.

SWOT is an acronym for explaining strengths, weaknesses, opportunities and threats for any specific organization. SWOT is a popular analytical technique used in strategic management and considered to be an enduring analytical technique for many years. SWOT analysis results in identification of competitive distinctive competencies, opportunities that are not exploited fully due to shortage of resources. An opportunity may not have any value unless the firm has a capacity to exploit the opportunity.

Wheelan and Hunger view that the "essence of strategy is opportunity divided by capacity". The crucial question before a strategist is:

• Is it worthy enough to invest in our strength to make it stronger?

• Is it desirable to invest in weakness so that the company will redefine it as competitive?

However, the discretionary power of strategist prevails ultimately.

SWOT analysis is criticized for the following reasons:

1. SWOT analysis consists of a long list of factors.

2. SWOT analysis does not consider priorities among factors

3. The description of factors is imprecise.

4. Considering any factor as strength or weakness is mainly based on the opinion and perception of decision makers.

5. Analysis of factors are not counterchecked at different levels with data.

6. The logical link between strategy implementation and SWOT analysis is missing.

Internal Factors / External Factors	*Internal Strengths (S) (Strengths in Finance, Marketing, HR, R & D, Operations, general management)*	*Internal Weaknesses (W) (Weaknesses in functional areas)*
External Opportunities (O) economic, political, social, technology, demographic.	SO Strategies Maxi- Maxi Generate strategies that use strengths to take advantage of opportunities	WO Strategies Mini- Maxi Generate strategies that take advantage of opportunities by overcoming weaknesses.
External Threats (T) (Shortage of energy, competition. Government's active role)	ST Strategies Maxi – Mini Generate strategies that use strengths to avoid threats	WT Strategies Mini – Mini Retrenchment, Liquidation, Joint venture. Generate strategies that minimize weakness and avoid threats.

Pic. 5. SWOT analysis scheme

The Strategic Factor Analysis Summary (SFAS) matrix incorporates the important factors gathered from environmental scanning and provides necessary information for strategy formulation. The EFAS, IFAS tables and SFAS matrix are developed as a powerful set of analytical tools for strategic analysis. The SFAS matrix summarizes an organization's strategic factors by combining the external factors from EFAS table and with the internal factors from IFAS table. The EFAS table and IFAS table given in the previous chapters listed a total of 18 internal and external factors. These factors are condensed and 8 factors are selected for SFAS matrix from among the 18 strategic factors. Each factor is thoroughly examined before being included in the SFAS matrix. The highest weighted EFAS and IFAS factors are finally considered for SFAS matrix.

TOWS matrix is another way of writing SWOT. The TOWS matrix is a conceptual framework for a systematic analysis for matching opportunities and threats that are external with strengths and weaknesses, which are internal for the organization. When opportunities, strengths, threats and weaknesses combine, they result in four sets of different strategic alternatives. TOWS matrix is one way of generating strategic alternatives.

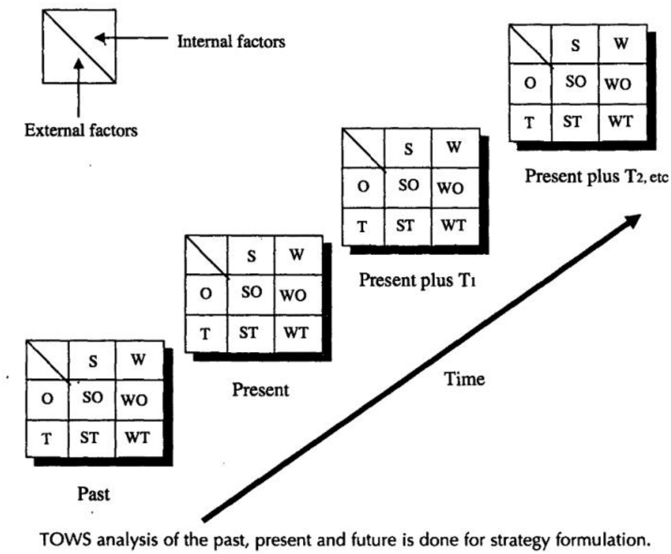
In TOWS matrix 'T' stands for Threats 'a' stands for Opportunities '5' stands for Strengths and 'W' stands for Weaknesses.

1. WT strategy tries to minimize weaknesses and threats. Retrenchment, joint ventures and liquidation are preferred strategies.

2. WO strategy tries to take advantage of opportunities by overcoming weaknesses. A firm with weaknesses in some areas may develop those areas in the company or acquire needed competencies from outside, making it possible to take advantage of opportunities in the external environment.

3. ST strategy attempts to consider a company's strength to avoid threats in the environment. The aim is to maximize the former while minimizing the latter. A company may use its technological, financial, managerial 9r marketing strengths to cope with the threats of a new product introduced by competitors.

4. SO strategy is devised to use its strengths to take advantage of opportunities. It is the aim of enterprises to move from other positions in the matrix to this one. If they have weaknesses they will strive to overcome them, making them strengths. If they face threats, they will cope up with them so that they can focus on opportunities, TOWS matrix is used to generate several strategic alternatives.



Pic. 6. TOWS matrix scheme

7.2. Corporate Strategy

In strategy formulation, environmental analysis and organizational appraisal are followed by choice of strategy with appropriate orientation. Corporate strategy provides overall direction for the firm irrespective of its size whether it is small or big. Corporate level strategy means the strategy that top management formulates for the overall company. The orientation towards growth can be decided by asking the three basic questions.

• Should we continue with the same business with similar efforts?

• Should we expand into new business areas by adding new functions, products and markets?

• Should we get out of this business or a part of the business?

Based on the above questions three general orientations, known as Grand Strategies are evolved.

• Stability strategies consist of no change in the company's current activities.

• Growth strategies, involve expansion of a firm's activities.

• Retrenchment strategies that reduce the level of company's activities.

Strategic planning has become a very important part of the top management function due to the influence of external environmental factors and systems approach to the business management. Stability strategy involves continuing the current activities without any significant change in direction. Stability strategy is pursued by a successful enterprise in a relatively stable and predictable environment. Stability strategy focuses on incremental improvement in functional performance. A stability strategy is less risky. It may be suitable in the short run, but will be dangerous if pursued for a long period of time. Some of the types of stability strategies are:

• Pause / proceed with caution strategy;

• No Change Strategy;

• The Profit Strategy;

Pause / Proceed with Caution Strategy.

Companies adopt this strategy after a prolonged period of rapid growth in order to consolidate resources and results. It is a deliberate and conscious attempt to postpone strategic shift. It is an opportunity to rest before shift in strategy. This strategy is a conscious attempt to make incremental improvement till the environment changes. It is a temporary strategy.

No Change Strategy: No Change strategy is pursued by small business when the future is predicted to be the continuation of the present. The company enjoys relatively stable competitive position in the industry and it has not much opportunities or threats. The success of no change strategy depends on a lack of significant change in a corporation's situation and the company will make a few marginal adjustments for inflation in its sales and profit aims. Small town businesses follow this strategy.

Profit Strategy: Profit strategy assumes that the difficulties faced by the firm are temporary. When the company sales are declining, the profit strategy tries to project a picture of a profit making organization by taking measures such as reducing investment and blaming the company's problems on negative environment such as government policy changes, competitor's sudden mo\es and so on. It is a secretive and seductive strategy and cannot be continued for a long time. It will result in deterioration of organization's position.

Growth strategy is a corporate level strategy, designed to achieve increase in sales, assets and profits. Companies that do business in expanding industries must grow in order to survive. Continuing growth means increasing sales, reducing per unit cost and thereby increasing profits. So, the most widely pursued corporate strategy is growth strategy. It is an attractive strategy for two reasons.

- Concentration;
- Diversification.

Concentration: It is a form of growth strategy, which results in concentration of resources on those product lines, which have growth potential. Concentration strategy is adopted in growing industry by growing firms. There are two basic concentration strategies namely,

- Vertical growth and;
- Horizontal growth.

Vertical growth occurs when one function previously carried over by a supplier or a distributor is being taken over by the company in order to reduce costs, to maintain quality of input and to gain control over scarce resources. Vertical growth results in vertical integration.

Horizontal Integration: A firm is said to follow horizontal integration if it acquires another firm that produces the same type of products with similar production process / marketing practices. This strategy is adopted to acquire competitor's business or to acquire market share or to reduce competition or to gain economy of scale of operation.

Advantages of Vertical Integration

• It helps company to exercise control over critical sources of supply.

• It limits competition in the concerned industry, thereby enables the company to charge a high price for and make greater profits than before.

• It helps to make investments in specialized assets. These specialized assets are designed to perform a specific task, which will reduce the cost of value creation and differentiate the product and charge premium pricing.

Disadvantages of Vertical Integration

• Cost disadvantages sometimes occur when the firm is committed to purchase from company owned sources when low cost external sources of supply is available but could not be exploited. • Vertical integration proves to be a disadvantage when technology is changing fast and the firm is tied to obsolete technology.

• The radio manufacturers went for backward integration and manufactured vacuum tubes. When the technology shifted from vacuum tubes to transistor, they were put in a disadvantageous position, which resulted in competitive disadvantage.

• Vertical integration proves to be a risky business if unstable or unpredictable . demand conditions prevail.

Diversification

Strategy Formulation: is considered to be a complex one because it involves a simultaneous departure from current business, familiar products and familiar markets. Diversification makes addition to the portfolio of businesses. Firms choose diversification when the growth objectives are very high and it could not be achieved within the existing product/market scope. Firms consider diversification as a long-term solution to the vulnerability inherent in a single, limited number of business propositions. Usually firms with one business find themselves vulnerable under changing environmental conditions. If the firm wants to counteract vulnerability, it opts for diversification. The main attraction for diversification arises from new and fresh opportunities, which hold promise of high profitability.

Unrelated Diversification / Conglomerate Diversification

In unrelated diversification, the firm enters into a new business area that has no obvious connection with any ofthe existing business. It is suitable, ifthe company's core functional skills are highly specialized and have few applications outside the company's core business. If the top management is good enough in turning around sick business, unrelated diversification may be suitable. The new businesses / products are unrelated to process / technology / function of existing business. In conglomerate diversification a firm acquires business to reduce cyclical fluctuations in cash flows or revenues.

Concentric Diversification

Concentric diversification is similar to related diversification as there are benefits of synergy when the new business is related to existing business through process, technology and marketing. The new product is a spin off from the existing facilities, products and processes. It is a departure from existing value chain, as the new product does not fall within the current product-process chain.

Strategic Alliance as an Alternative to Diversification

Diversification is always accompanied with bureaucratic costs. However strategic alliance is considered to be an alternative to gain the value on par with diversification without incurring the bureaucratic costs.

7.3. At the Business Level

Strategy formulation starts with environmental analysis, internal appraisal, SWOT analysis and situation analysis. Firms determine the corporate strategy based on the strengths, weaknesses, opportunities and threats identified, and then proceed to develop business level strategies. Business level strategy focuses on improving the competitive position of a company's products / service within the specific industry, which the firm serves.

Competitive strategy raises the following questions:

• Should we compete on the basis of low cost?
• Should we differentiate our products?
• Should we focus on niche markets?

Derek. F.Abell has viewed that a company should define business along three dimensions; customer needs (what is to be satisfied), customer groups (segment to be satisfied) and distinctive competencies (how the needs are satisfied). These three dimensions are the basis of business level strategy to gain a competitive advantage.

Customer needs are those that can be satisfied with product/service characteristics. ' Product differentiation involves developing a competitive advantage by designing products / services to satisfy customer needs. Product differentiation may vary among companies.

Market segmentation is defined as the process of grouping the customers, based on their needs and preferences in order to gain competitive advantage. Sometimes companies target at average customer without recognizing different market segments. At times, companies try to cater to the needs of each market segment with different products. But some companies concentrate on one market segment or niche.

Distinctive competencies are the means by which a company tries to satisfy customer needs and customer groups and attain competitive advantage through superior efficiency, quality, innovation and customer responsiveness.

Cost Leadership Strategy

This is a generic business level strategy in which a large business produces at the lowest cost possible, no frills products and services for a large market with a relatively elastic demand.

Organizations, which adopt cost leadership strategy, try to produce goods/services at a lower cost than other players and try to outperform others.

1. The cost leader can charge lower price than immediate competitors and achieve higher profit than competitors.

2. When rivalry increases in the industry at a later stage with price competition, the cost leader can survive and withstand the competitive forces and make above average profits.

The cost leader is relatively safe as long as he maintains cost advantage. The cost advantage arises from different factors like:

• efficient scale economies;
• benefits of early entry;
• a large market share;
• locational advantage;
• synergy between functions;
• experience curve effects;
• dropping unprofitable customers.

Advantages

1. Low cost serves as a barrier to entry as the other companies are unable to enter the industry and match the leader's costs or price.

2. The arrival of substitute products can be managed with price reduction to retain the market share. Intense rivalry is avoided as the cost leader is protected from industry competitors by the cost advantage.

3. Powerful buyers and powerful suppliers will have less influence on cost leaders as the cost leader buys in large quantities and exercise bargaining power.

Disadvantages

Competitors imitate the cost leaders methods in course of time. Sometimes the arrival of new low cost technology pursued by close rivals may prove to be a threat to cost leader. The technological changes make economies of scale completely obsolete and the cost leader's position is risky in these circumstances.

Differentiation Strategy

This is a generic business level strategy wherein a larger business produces and markets to the entire industry products that can be readily distinguished from those of competitors. Companies which pursue differentiation strategy create products which are perceived as unique by customers, and they charge premium price, which is above industry average. psychological desires to become a source of differentiation. When differentiation is based on customer responsiveness, a company offers comprehensive after sales service and warranty. The appeal may be towards social status in the case of the luxury passenger car 'Innova'. The appeal may be towards patriotism in the case of Life Insurance Policies of Govt. of India. Sometimes differentiation may be based on age group or socio economic groups. Firms, which adopt differentiation strategy, try to differentiate itself along as many dimensions as possible.

A differentiator often divides the market into segments and niches. Sometimes. a differentiator creates products for each market segment and proves to be a broad differentiator. Sony makes 24 models of color television sets to suit the needs of different market segments and market needs. Avenues of differentiation are as follows.

Both Cost leadership and Differentiation

It is widely believed that differentiation involves high cost due to short production runs, high manufacturing costs and high marketing expenses compared to a cost leader. With technological development, new companies have found it easier to get benefits of both differentiator and cost leadership strategies. Short production runs used to raise manufacturing costs. Flexible manufacturing systems with the use of robots reduces the costs of retooling and the high cost associated with small production runs. The popularity of niche marketing in consumer goods industries is mainly due to flexible manufacturing process, which results in reducing the cost of differentiation. The improved quality enables the firm to charge premium price.

Focus Strategy

This strategy is pursued to serve the needs of a limited customer groups or segment. A focused company pays attention to serve a particular market niche, which may be defined geographically, by type of customer, or by segment of product line. A geographic niche is defined by a locality.

Advantages

• A focused company is safeguarded from competitors till rivals copy the product. This ability gives the focuser power over its buyers since they cannot get the same from anywhere else.

• Customer loyalty is developed in the market niche; consequently new entrants have to fight against brand loyalty developed by focuser. It lessens the threat from substitutes also.

• It allows the company to stay close to the customer and needs. Disadvantages responds to changing.

• Focused strategy protects the buyer's loyalty, as he cannot get similar products from anywhere else.

• A focuser produces in small volume so that the production costs often exceeds that of low cost producer.

• Powerful suppliers are threat to a focused company. They are at a disadvantage as they buy in small volume and they are at the suppliers' mercy.

A focus firm may pursue low cost or differentiation approach. It will serve specific niche segments instead of the whole market like a cost leader or differentiator. It will follow distinctive competency such as a cost advantage and superior efficiency in a region or develop superior skills in customer responsiveness based on serving regional customers. Many small companies follow this strategy. They exploit the gap in the market by developing innovative product that customers would love to have it.

7.4. Choice of strategies Balanced Score and Card

Concept of Strategic Choice In previous chapters, corporate strategies, business level strategies, functional level strategies and global level strategies have been discussed with different variants. Each strategy is marked by risk and limitation depending upon environmental analysis and organizational appraisal. Choice of a strategy involves an understanding of choice mechanism and issues involved in it. Glueck has defined strategic choice as the process of selecting the best strategy out of all available strategies. Choice Process Choice involves decision making process and it includes various steps.

Glueck has described the following steps in strategic choice.

- Focussing;
- Evaluating;
- ObJective on strategic Subjective strategic;
- Strategic factors alternatives factors alternatives;
- Considering decision factors choice and;
- Focusing on Strategic Alternatives.

Theoretically this step involves identification of all alternatives. In practice managers consider those alternatives which are relevant and feasible. The number of alternatives are restricted hence.

Gap Analysis: In gap analysis, the strategist examines what the organization wants to achieve (desired performance) and what it has really achieved (actual performance). The gap between the two positions constitutes the background for various alternatives and diagnosis.

Evaluation of Strategic Alternatives The next step is to assess the pros and cons of various alternatives and their suitability. Portfolio analysis is one such tool which is popularly used in order to evaluate strategic alternatives. The information collected for SWOT analysis serves as a basis for portfolio analysis. Portfolio analysis is a two dimensional technique.

BCGMatrix

Strategic Management BCG growth matrix developed by Boston Consulting Group has two dimensions namely, market growth rate and relative market share. The main objective of BCG matrix is to help top management to identify the cash flow requirements of different businesses in their portfolio. Construction of a BCG matrix involves three steps.

1. Dividing the company into strategic business units (SBU) and assessing the longterm prospects of each.

2. Comparing SBUs relative prospects against each other of each. by means of a matrix that indicates the relative prospects of each.

3. Developing strategic objectives with respect to each SBU. It, categorizes a firm's business units by the market share that they sold and the growth rate of their respective markets.

Strategic Implications BCG matrix is aimed to find out how the cash resources could be used to maximize the future growth and profitability of a company. BCG makes the following recommendations.

• The Company's portfolio should be made attractive by consolidating the position of stars and turning potential question marks into stars. The surplus cash from cash cow should be used for selected question marks and stars.

• Question marks with questionable prospects should be divested and dropped.

• If Cash Cows, Stars and Question Marks are not in sufficient number the firm should go

• The Company should exit from SBUs that are dogs. for acquisition. in order to build a more balanced portfolio.

Limitations of BCG Matrix

1. It is a simplistic model. This tool considers only two dimensions such as relative market share and growth rate. There are other factors, which are not considered in the matrix.

2. The relationship between market share and cost savings is not straight forward as BCG matrix suggests.

3. A high market share in positive cash flow from a low growth cash cows. industry does not necessarily result.

4. The portfolio techniques do not pay attention to the source of value creation especially from diversification. They treat them as independent businesses and ignores transfer of skills and resources which links them. Value is created in diversified unit by sharing resources, sharing distinctive competencies across different businesses to realize economies of scope.

5. long term profitability which is subject to a variety of influences is not directly related to growth and market share.

Strategic choice

The choice of a strategy is influenced by a variety of factors. These factors may be classified as subjective and objective factors. Objective factors are grouped into two categories such as environmental factors and organizational factors. Environmental factors include volatility of environment, input supply from environment and powerful stakeholders. Organizational factors to be considered are organization's mission, the strategic intent, its business definition and its strengths and weaknesses.

Subjective Factors

• subjective factors;

• organization's;

• personal past pressure factors attitude to risks may be classified strategies as: internal political consideration and from stakeholders.

Past Strategies: When huge investments have been committed to strategies adopted in previous period, they prove to be a stumbling block for the organizations to take a new direction and the strategists become ultimately responsible for the results. Personal factors: The value system of top management influences the type of strategy pursued by organization. The personal preferences of decision makers again influences the choice of strategy.

Attitude to Risk: The attractiveness of a strategy is closely related to the risks embedded into it. Risk in a strategy is said to be high when the assets to be committed and the period of time the assets will be locked up for achieving the strategy are very high and lengthy.. Firms which are involved in global operations, the risks are very great due to the variation among countries in terms of customs, regulations and resources. A wrong decision is likely to kill the company.

Balanced score card has been proposed and popularized by Robert S. David P.Norton. It is a performance measurement tool which "provides executives with a comprehensive framework translates a company's strategic objectives into coherent set of performance measures".

It is a management system which can motivate breakthrough improvements in critical areas such as product, process, customer and market development. scorecard consists of four different perspectives such as:

• Customer;

• Financial;

• Internal business;

• Innovation learning.

The implementation of balanced scorecard as a performance measurement tool has led to the identification of cost reduction opportunities in the organisation, which has resulted in the improvement of bottomline. The standard costing technique has been widely used by Corporate India. The sales volume and selling price variance, material price and material usage variance, expense centre budgets, brand revenue and profit centre and transfer price mechanism are tools used by the firms.

8. BUSINESS CASES

CANARA BANK

Canara Bank is today an one hundred year old bank with a staff strength of over 46,800. As on 31.03.2006, the bank's core capital stood at Rs.4l 0 crores and reserves at Rs.6,722 crores. The bank has 2,532 branches including its London branch within its fold and the net profit has been recorded to the tune of Rs.1,343 crores during the 2005-06 year as against Rs.l,ll 0 crores in the preceding year. The 'Vision 2010' of Canara Bank aims at "positioning Canara Bank as Global Bank in pursuit of Best Practices".

The organisation structure of the bank has undergone several changes over the period of time. Its Head Quarters was changed from Mangalore to Bangalore. The branches come under the jurisdiction of Regional Office and they in turn come under Circle Office, which are under the supervision and control of Head Office.

Head Office => Circle Office J => Regional Office => Branches

The Head Office has centralized control over operations such as:

1. Personnel;
2. Funds and Investment;
3. Inspection;
4. R&D and;
5. Risk Management.

Canara Bank's growth and achievements are directly attributable to the key executives and charismatic leaders. They possess the ability to motivate the staff to ensure their commitment down the time.

The bank has a lot of subsidiaries such as Can bank Mutual Fund, Canfin Homes Ltd., Canbank Venture Capital Fund Ltd., Canbank Factors Ltd., Gilt Securities Trading Corporation Ltd., Canbank Financial Services Ltd. and Canbank Investment Management Services Ltd. Canara Bank is rated as one of the Prominent Fir:lancial conglomerates with a wide range of subsidiaries providing a host of services to the diverse clientele groups. The bank explores new challenging fields with the help of these subsidiaries.

The bank was started in 1906 with staff strength of four. In the very first year of its operations (01.07.1906-31.03-1907) the bank earned a net profit of Rs.2,420/- and transferred Rs.112/- to reserves. The Directors also resolved to perform their duties without remuneration during the period from 01.07.06 to 31.03.07.

In 1933, there was a big run on the bank due to the impact of a general moratorium issued by the RBI. In 1945, the bank recruited women for the first time with the selection of 12 lady staff in the first batch.

Systematic training for the staff came into effect from 12th April 1954. Continuous training to the entire rank and file with up-to-date knowledge is the speciality of training programmes. The bank has so far trained 88,171 staff upto March 2006. It has set an ambitious plan of training/retraining of one lakh staff.

The Bank's Training colleges develop and impart numerous specialized and activity based programmes. They aim to develop behavioural, managerial and leadership skill among their employees.

As part of its social concern, the Bank established its Golden Jubilee Education Fund in 1956 to grant loan scholarship on reasonably low rate of interest to poor young men and women.

In 1962, the deposits of Canara Bank crossed Rs.50 crores. In 1969 Canara Bank was nationalized along with 13 other major Banks. At the time of nationalization, the Bank's capital and reserves stood at Rs.4 crores. There were 360 branches with the staff strength of 7,198.

In 1978, Canara Bank's deposits exceeded Rs.l,OOO crore. In 1980, the banks deposits crossed Rs.2,OOO crores, which was considered a milestone. During the current year the deposits grow by 20.67% to reach 1,16,803 crore and advances grew by 31.45% to reach 79,426 crore. There is a paradigm shift in profit budgeting and monitoring and 'each branch is considered a profit centre.

Mr.Ratnakar, the charismatic CMD, took overthe reins of the bank in 1982 at the age of 46. He was the youngest Chairman in the bank's history and the youngest CMD of a large public sector bank. During his tenure the bank rose to dizzy heights and it was the most talked about and envied bank in the industry.

In 1983, the Bank introduced a series of innovation, such as launching of Credit Card, inauguration of Merchant Banking Division and the like. The first overseas branch. was opened by the Bank in London. In 1985, the Bank setup a Deposit-taking Company in Hong Kong along with two other banks. In 1985, Canara Bank was the only bank, which figured in the list under the category 'Top 50 by Performance' (real growth in assets) and was ranked in 34th place. The uniqueness of the merger is that it brought with it a large number of employees.

Global business of the bank has reached Rs.1,96,229 crore in March 2006. The bank has earned trading profit of Rs.112 crore through treasury and international operations. It has a strong network of 537 corresponding banks spreading to 94 countries to carryon international operations. It has Rupee Drawing Arrangements with 20 Exchange Houses and 18 banks in the Middle East. The bank is managing two exchange houses viz., AI Razouki International Exchange Company under Secondment Agreement and Eastern Exchange Est. under Management contract of the Bank for handling expatriate remittances. The bank has a representative office at Shanghai, China.

For the year ended on March 2007, Canara Bank has earned a net profit of Rs.1421 crore as against RS.1343 crore in the previous year. During this period, its aggregate business expanded to Rs.2,40,887 crore. Its business per employee increased to Rs.5.49 crore from 4.42 crore in 06. Its profit per employee increased to Rs.3.24 lakhs in 07 from 3.02 lakhs in 06. While deposits grew by 22% to reach 1,42,381 crore, advances registered a growth of 24% to reach Rs.98,506 crore. Canara Bank has entered into MOU with HSBC Holdings (Asia Pacific) and Oriental Bank of Commerce for greater penetration into insurance business. Canara Bank has undertaken Six Sigma Project to enhance customer service. Canara Bank has entered into agreement with SBI and NFS to share ATM networks so that customers of Canara Bank have access to over 14,000 ATMs.

For the year ended March 2008, Canara Bank has earned an operating profit of 2,950 crore and net profit of Rs.1,565 crore. Its deposits rose by 1,54,072 crore and net advances have crossed ~ ,07,238 crore. The insurance joint venture company with Hong Kong Shangai Banking Corporation (HSBC) would begin operations in 2008-09.

Challenges facing the bank today:

• New generation private sector banks with their technological supremacy are giving tough fight to public sector banks and competition is intense in banking industry.

• Banks are increasingly viewing retail banking as the attractive market segment with opportunities for growth. However, Reserve Bank of India has cautioned banks to go slow in this segment.

• The impact of switch over to the 90-day delinquency norms was evident from the record growth in provision made towards NPAs in Canara Bank.

The amount of provisions held against NPAs increased by 40% in 2002-03 as against 21 % in 2001-02.

• Introduction of BASEL-II norms would have tremendous impact on the capital adequacy of banks. The Bank may have to bring in additional capital to meet these requirements. The objective is to implement advanced approaches of risk management as prescribed in BASEL-II in line with global best practices.

• The bank's bottom line may be affected by increased thrust by the successive governments to provide agriculture credit at lower rate of interest. This is another area of concern for the bank. • Yet another challenge for all public sector banks is how to attract young customers around the age of 25 who constitute 54% of the population.

• The repeated pleas of the government for merger of national ized banks are another threat (or is it an opportunity) facing all public sector banks.

QUESTIONS

1. Suggest suitable strategies for Canara Bank to face the challenges in recent times.

2. What will be the impact of these challenges on its profitability?

COFFEE BOARD IN LIBERALISED ERA

Coffee is a widely consumed beverage in India, U.S.A., Western Europe and Japan. Commercial coffee production began in India 150 years ago when British established plantations throughout South India. The tropical climate, high altitude, abundant rainfall, soil rich in humus content and well drained subsoil were identified as ideal conditions for coffee cultivation in India. William H.Ukers, a well-known authority on coffee praised the high quality of Indian Coffee. 'Indian coffees are noted for their blue colour, cleanliness of beans and fine liquoring qualities. It is mountain grown and the bean is large. The products have always taken a stand on quality and accordingly, Indian coffee has commanded a premium in the European market. lndia produces both Arabica and Robusta coffee.

The government passed Coffee Cess Act (XIV of 1935) and set up the first Indian Coffee Cess Committee in No.1933 with the objective of promoting the sale of Indian coffee. The outbreak of Second World War proved to be a setback for Indian coffee growers as the war resulted in loss of European market and crisis for the industry. Later, the government constituted the Coffee Market Expansion Board on Dec.1940 for a period of one year and subsequently it was extended up to June 1942. The Market Expansion Act (VII of 1942) replaced the earlier ordinance and the government made the Act a permanent one and brought in amendment in 1954.

A full time chairman was appointed with 32 members in the Coffee Board. The Board's specific functions were as follows:

• Marketing of coffee through a common pool as perceived in the Act.

• Promotion of consumption of Indian Coffee in India and abroad.

• Promoting agricultural and technological research in the interest of Indian coffee industry.

• Provision of welfare measures for the workers of coffee plantation.

The Coffee Board was constituted in 1942 and it never consulted coffee growers for fixing selling price but it fixed Minimum Release Price (MRP) on the basis of export price, cost of production and market price.

Coffee Board introduced a system called 'Compulsory Pooling' through Departmental Pool Depots and Agents who run curing works for processing the coffee pooled. Coffee Board fixed the purchase price for every season on the basis of Minimum Release Price (MRP). Two different types of coffee auctions were conducted every month by the Coffee Board namely, Domestic Auction and Export Auction. So two different MRPs were fixed by Coffee Board for domestic and export auctions. It took many years to realize the sale proceeds for a particular season's coffee, which may range from five years or more. Coffee Board operated through two types of dealers namely pool sale dealers and local sale permit holders. Pool sale dealers used to participate in domestic auctions to purchase on the basis of each lot. Local sale permit holders were dealers who were offered coffee by Coffee Board on par with pool sale auction prices. It was a useful arrangement to check any kind of undue price rise in the retail market. However, the Planter's Associations blamed Coffee Board's marketing policy for low price. The dissatisfaction among growers; forces of liberalization, and the influence of growers' lobby led to reconsideration of government's coffee marketing policy. In 1992-93 season, growers were given limited freedom to sell 30% of total produce in the domestic market and the remaining 70% to be surrendered to the Coffee Board. Inspite of such restriction 1,19,944 tonnes was pooled by the Coffee Board. During 1993-94 season 50% free sale quota was permitted by the government, to sustain growers' interests in exporting in a cured or uncured form. In 1995-96, the small growers were permitted to sell their entire produce in the open market and the large growers to surrender 30% of their produce to the Board. Due to pressure from large growers, the Government of India amended Coffee Act in 1996, and declared total freedom to large growers. With the sudden turn of events, the Coffee Board stopped its marketing activities.

United Planter's Association of South India (UPASI), the apex body of planters in South India acted as a spokesperson of the planters. UPASI sponsored a study of the Coffee Board's marketing system and its shortcomings to suggest measures for revamping it and to make it dynamic. The study was conducted by 11M, Calcutta. The study recommended optional pooling system as suitable strategy, by allowing freedom of choice to the coffee growers for marketing their produce. The study recommended cooperative institutions among small planters and joint stock companies by consolidating medium sized individual growers. The World Bank Study Report also criticized the compulsory pooling and 'quotas' as reasons for the growers disinterest in investing in the plantation.

The international coffee price came down unexpectedly. Due to competition in the world market. Indian coffee growers could not withstand the onslaught of market economy.

The volatile export market and the stagnated domestic consumptions at 30% of production affected the coffee growers heavily.

As the market forces such as demand and supply position determine the price, there is no guarantee for minimum price for coffee growers. The individual planters have to depend on their own marketing strategy to sell their produce. Getting updated reliable price related information is a crucial matter for small growers. A study conducted by Palaney's growers confirm the growers' desire for intervention by Coffee Board to protect them who were used to protected environment.

QUESTIONS

1. Discuss the issues in the case.
2. Suggest a suitable strategy for solving the problem of small growers.
3. Analyze the new role of Coffee Board.

THE CASE STUDY OF INDIAN RAILWAYS

The Indian Railways play an important role in the social, political and economic life of the country all through the 150 years of its existence. The transportation network of the Indian railway has helped not only integrate markets but also people across the length and breadth of the Indian subcontinent. The Railway is the principal mode of transport in India carrying 13 million passengers (equal to the population of Australia) every day and more than a million tons of freight traffic daily over a network spread across 6500 route kilometers covering about 7000 stations. The first commercial passenger train in India ran between Bombay and Thane (places in Western India) on April 16, 1853. An Indian railway is the second largest railway system in the world. Indian railways is the largest employer in the world directly employing about 16 lakh people and indirectly employing over seventy lakh people. The Indian railways is a unique organisation in many ways. It is one ofthe few public utilities that provide 24 hours non-stop service, 7 days a week, 52 weeks in a year. The Indian railways are the largest engineering organisation in the country. They have a fleet consisting of 8590 locomotives, 37,953 coaches and 3,49,560 wagons spread over 7076 railway stations. The rolling stock fleet is serviced and running repairs are undertaken in 225 loco sheds and 401 carriage and wagon sick lines and central repair depots situated all over the network. Periodical overhaul of rolling stock is undertaken in 49 workshops. It is a mu Itiguage system operating on three guages-the broad (BC) the metre (MG) and the narrow (NG). The route length of rail network comprised of 62,597 route kms, including 14,227 route kms of double or multiple tracks. The Indian railways operates as a department of the government with the minister for Railways holds the rank of a Cabinet Minister and he is assisted by two ministers of State. The Railway Board takes care of day-to-day administration and it consists of a chairman and six advisers. The implementation of the boards' policies are monitored by specialized directorates. The Railways have a vast workforce of over 1.5 million and it plays the role of a model employer as it happens to be a government department. They run schools, recreation centers and hospitals, many of which have the reputation of being among the best in their class. The Indian railways have big housing colonies to house their staff. The railways are pioneer in telegraph, telephone and wireless communication facilities which have been established to provide communication between stations so as to secure safety to train movement. The railways have established six training institutes for preparing railway employees to cope up with technological changes and environmental changes.

The Indian railways face chronic financial deficits, low productivity, over staff, high operating costs, poor measurement of costs, inadequate financial and management accounting systems, public monopoly, low service quality, lack of competition, inadequate cost recovery, failure to recover capital costs and absence of market orientation and commercial sense. There is no second opinion about improving the operational' efficiency of Indian railways. Economists are of the view that privatization, either partial or complete would be the best solution to the problems of Indian railways. The widespread public opinion is that privatization would relieve Indian railways from the obligations of being a government department as well as gear its operations to market conditions. They believe that privatization would ensure greater transparency and accountability.

QUESTIONS

1. What are the issues in this case?
2. Suggest a course of action for Railways.

VAIGAI OILS

Vaigai group was started in the year 1981 as a private limited company and later on converted to public limited company. It is a 100 crores company with over 700 employees in its payroll. It has 370 shareholders and 1% shares are held by 170 employees and 80% shares are held by promQters and the remaining held by the public. It was four different companies previously and after reorganisation five divisions have come into existence.

Vaigai Chemicals manufactures Pottassium Chlorate (KCL 03) and Potassium Perchlorate *KCL 04) at Karaikal. The agro products division consists of crude rice bran oil and deoiled rice bran manufacturing units at Madurai and Tirunelveli. The textile division operates from Nilakottai. The construction division, Vaigai Vaibhov, functions from Madurai and Chennai. The protein division serves as a supplier of raw material for agro and oil division at Madurai. The capital structure of Vaigai Group consists of 3 crore equity, 16 crore loan and 9 crore reserves and surplus which is one of low leverage position. The group raises fund from foreign money market, New York foreign bank at Antwerb and so on and reduces its cost of capital. It resorts to risk mitigation through forward contracting and hedging.

In India, the production of oilseeds is growing marginally whereas the demand is rising constantly putting the pressure on the ratio of demand to supply. There is a dire need to capitalise on edible rice bran oil which does not require oilseed production. India is the second largest producer of rice bran, next to China. The current production of rice bran oil in India is estimated at 6,00,000MT per annum out of which 5,50,000 tone is edible grade. India has the capacity to produce 7 lakh MT of rice bran oil at the present level of rice production.

Rice bran oil is extensively known as 'Heart Oil' in Japan and known as Health oil in U.S.A. It is a unique cooking oil produced from rice which has balanced fatty acids composition and an ideal omega 6/omega 3 ratio which contains three categories of natural antioxidants (Tocopherols, Tocotrienols, Oryzonols) as against one anti-oxidant (Tocopherols) in conventional oils. It is associated with many health benefits such as decreasing cholesterol absorption, reducing bone loss and fighting against Osteoporosis. It is used to treat nervous imbalance and it contains amino acids that would strengthen the immune system. Refined rice bran oil is a rich store house of protein, fat, minerals, vitamins and dietary fibre.

In India solvent extraction process of rice bran by hexane is quite popular. It is basically a process of diffusion of a solvent (hexane) into oil bearing cells of rice bran resulting in a solution of (he oil in solvent N hexane (food grade) is considered to be best for solvent extraction purpose and it has low boiling point of 67°C to 70°e. The hexane absorbed in the material is recovered by evaporation condensation and from distillation of miscella. The solvent hexane thus recovered is recycled through extraction.

The production unit of Vaigai oil is situated in the outskirts of Madurai near Nagari. The production process is one of continuous in nature and the plant runs 24 hours in 3 shifts. The crude oil produced in the plant is an intermediate product sold to refineries for further processing. The plant produces 200 tonnes of edible crude oil per day. The strength of Vaigai Oil lies in containing its cost of utilities which are comparable to the best in the industry. The hexane loss is standardised to 1.5 litre loss per tonne of rice bran processed. The consumption of electricity per tonne of crude rice bran oil production is stabilised to 25 units and fuel consumption standardised to 60 kilo of husk per tonne. The plant uses 1,00,000 litres of ground water for its manufacturing process every day.

The HR department regularly organises training programmes on:

1. Leadershi;
2. Team Development;
3. Self-Development;
4. Counselling Sessions and;
5. Time Management.

The employees are entitled to ESI and PF benefits and 8.33% bonus on basic salary. Vaigai Oils has the track record of maintaining plant safety with zero accidents in the recent past. Awards, merit certificates are given to employees to motivate their performance. The quality circles functioning is quite laudable that some of the useful suggestions given by employees have resulted in substantial savings Vaigai Oils has the attrition rate of 10%.

The Ministry of Food Processing Industries has announced schemes for technical upgradation and modernisation and allotted Rs.l 00 crores in the 10th Plan, for backward and forward integration in vegetable oil industry. Recently the Government of Tamil Nadu has exempted the edible oil from sales tax in the current budget. However, it has allowed import of oil seeds with 30% duty and there is no parity of oilseeds.

Vaigai oils has recently laid foundation for its own refinery. There are 360 rice mills in and around Madurai from where rice bran is processed and from far off places also. Inspite of all such efforts the shortage of raw material supply affects continuous production.

Once in three months, it results in work stoppage. Moreover they maintain three days inventory at a time. During rainy season it is all the more scarce. The adverse monsoon season is a natural threat for rice production.

Vaigai Oils plans to launch its own brand of rice bran oil. Already Poorna advertised heavily about the product and launched the product (refined rice bran oil). has Rice bran oil is already blended with sunflower oil and also converted to Vanaspati. It is not given visibility in the final product and consumers are totally unaware of rice bran oils presence in blended oil and Vanaspathi they constlme every day.

Marketers are skeptical about creating awareness about the health properties of rice bran oil among the public. It amounts to changing the preference of gingelly oil which has been more than a century old practice. The critics are doubtful about changing the food habits overnight. The M.D. takes stock of the situation.

QUESTIONS

1. What are the issues in the case?
2. How would you change the consumer's age old preference?
3. Will the firm continue to be successful? Why?

PETER F .DRUCKER (1909-2005)

Drucker is considered to be one among the greatest management thinkers of the 21 st century. In the words of Tom Peter Drucker was "the creator and inventor of modern management". He was the recipient of Presidential Medal of Freedom by President GeorgeW.Bush in 2002.

He wrote 39 books on Management and innumerable scholarly articles. He was a visionary and his greatness lay in his profound and simple writing. Based on his experience with General Motors, he published a book "The Concept of Corporation" in 1945. He introduced the concept of 'decentralization' for the first time in "The Concept of Corporation."

Drucker published "Practice of Management" in 1954 and he raised fundamental questions which are at the core of business performance in that book. They are as follows:

1. What is your business?
2. What are you trying to accomplish?
3. How do you define results?

In 1966 he published his popular book "The Effective Executive" where he deals with five practices adopted by effective manager.

1. He is an effective time manager.
2. He focuses on achieving results.
3. He builds on the strengths of staff, superiors and himself.
4. He concentrates on one activity at a time to achieve results.
5. He takes decisions in a systematic fashion.

According to Drucker the most important skills a manager requires are planning skills and organising skills.

A manager should ask the following questions:

1. Why should I plan?
2. What are the objectives of planning?
3. When will the plan be implemented?
4. Where will the plan place the organisation in future?
5. How can the plan achieve organisational objectives?
6. Who are all involved in plan?

Next the manager needs to identify machine, money and materials and standards of 3MS.

In the views of Drucker, planning is a continuous process. Plan needs to be periodically reviewed so as to adapt to changing environment. Plans fail due to lack of coordination, unrealistic goals and improper information.

According to Drucker, organising is putting things in order and organising involves the following steps:

1. Identifying the objectives;
2. Preparing a list of activities;

3. Dividing into units;
4. Delegating work;
5. Coordination.

A manager is responsible for the contribution of his subordinates. This may sometimes shadow his contribution to the organisation. A manager should analyse what he can contribute personally and decisively.

Usually, meetings absorb a lot of manager's time and an effective manager should be mindful of contributing and recognising the importance of time spent on meetings.

An effective manager identifies the important activities and priorities them in order to be effective. He is also conscious of past failures and does not repeat again.

GE's strategy to be No.1 or No.2 in every business was influenced by Drucker. Thus Drucker's management philosophy has revolutionalised many enterprise's practices in 21 st century.

DR.VENKATASAMY OF ARAVIND EYE HOSPITAL 339

Aravind Eye Hospital has received a lot of attention from all over the world as it has performed over 2 million cataract surgeries successfully during its 29 years of existence. Aravind Eye Hospital has the distinction of single largest cataract surgery provider in the world. The uniqueness of Aravind lies in its free eye service to 70% of its patients while maintaining a margin of 40%. It is possible because 1/3 of the patients who pay for their services, facilitates Aravind to subsidise 2/3 of the poor patients who can not afford eye care and cataract surgery. For the poor, cataract means blindness, suffering and darkness in life.

According to C.K.Prahalad, Aravind Eye Hospital has achieved 200% return on capital employed while it is a market driving entity as it serves the unserved market-the poor.

G.Venkatasamy, the founder of Aravind Hospitals is a pioneer in introducing the I'evolutionary concept in health care and he is the brain behind its revolutionary concept.

Dr.Venkatasamy was born in a farmer's family in 1918 in a village called Vadamalapuram. He had to walk three kilometers to attend the school. His father was a Gandhian. He was influenced by the Gandhian principles such as nonviolence, truthfulness, simplicity and patriotism. He was also attracted by the clarion call of Swami Vivekananda. He completed his medical degree from Stanley Medical College in Chennai in 1944. He joined Indian Army

Medical Corps and served till the end of Second World War. After the war, he suffered from rheumatoid arthritis and experienced severe physical pain. His fingers got twisted and he felt utter hopelessness. However he got over his pain and hopelessness through sheer will power. At this stage, he was influenced by Aurobindo's teachings about evolution of humans into higher beings which will be possible with healthy body and spirit. He dropped his idea of studying obstetrics and completed his Master course in Ophthalmology in 1955. He joined Erskine Hospital, Madurai as an eye surgeon. He also served as a faculty, Head of Ophthalmology department and Vice Dean of the medical college attached to Erskine Hospital, Madurai. During his 20 years of government service he built a reputation of an admired eye surgeon in India. After his retirement, he was determined to fight against blindness. He started Aravind Eye Hospital after mortgaging his house. Today Aravind functions with ultra modern facilities with over 3000 beds.

Dr.Venkatasamy encouraged doctors and technicians to undertake community work regularly. As part of his epic fight against blindness among the poor, he devised inexpensive eye care service by cutting the cost through all possible means. He tried to increase the productivity level of surgeons by designing operating theatres and surgery procedures by evolving large volume, assembly line process for performing surgery. He standardised the procedures of patient screening, registration, surgery and post surgery care systematically. In the operation theatre two patients would be kept at a time. A doctor would finish the first surgery in 10-20 minutes and move on to the next patient without any delay. 70% of the tasks in the operations theatre are carried out by the paramedical staff skillfully. A doctor would be assisted by 4 nurses at a time and the team would not change. arrangement increased the productivity of the team due to better understanding and synergy. The surgeons would concentrate on surgery alone and would be in a position to perform more number of surgeries. There is no exploitation of patients at any stage.

Dr.Venkatasamy used to recruit village girls with school education and train them rigorously before inducting them as nurses in the hospital. This single step enabled them to minimise saiary expense significantly.

As a cost reduction measure, Dr.Venkatasamy directed the surgeons to use bamboo sticks in the stretchers instead of steel rods. In 1992, he set up Aurolab for manufacturing intra ocular lens to further reduce the cost of surgery. In 2003 Aurolab became an ISO 9002 certified institution and has started export of intra ocular lens to 90 countries. Today it enjoys 10% of market share in the world. Aurolab also started manufacturing ophthalmic suture products since 1998 when there was an acute need and it was a monopoly. Aravind has sold over a million ophthalmic suture needles every year. A careful observer can notice the several innovative steps introduced by Dr.Venkatasamy are aimed to reduce the cost of cataract surgery. While a cataract operation in US hospital costs merely US $1650, in Aravind it is performed with same quality at US $10.

Dr.Venkatasamy was explaining the marketing philosophy of Aravind "Give people a new experience, one that deeply changes the lives, make it affordable and eventually you change the whole world. Your customers become your marketers. While elaborating his management technique, he says "We are transparent, do not exaggerate anything to our patients. We are truthful and sympathetic to them. We have nothing more than a helping hand". Dr.Venkatasamy entered into collaboration with Premier teaching hospitals in the United States such as Harvard Medical School, John Hopkins, Massachusetts Eye and Ear Infirmity for research and training which facilitated faculty and student exchange programmes for updation and continuous learning of latest developments in the chosen field of specialisation. He pursued excellence throughout. To enhance the service quality, Aravind used technology as a tool. It introduced telemedicine by utilising 30 internet kiosks to serve the rural poor who have no access to quality eye care service. With web camera, (to photograph patients eyes), on-line questionnaire (to collect specific information about the patient) and e-mail facility (interaction between patient and doctor), kiosks provided the poor villagers to go for world class health service. In addition, both students and surgeons use internet to interact with experts from all over the world, and share information. Technology is used for knowledge sharing and knowledge building.

Dr.Venkatasamy was modest and humble and considered to be levels leader. He used to attribute his success to a divine higher consciousness.

The hospital has been honoured with Antonio Champalemaud Vision II award (one million Euro approximately Rs.5.5 crore) recently. Its present chairman Dr.Namperumalsamy announced that the award would be used for their Vision 2020 project. The Vision 2020 project was started in 1999 by World Health Organisation to eradicate avoidable blindness in Aravind Eye Hospitals. This prestigious award is a recognition of Aravind's social commitment. Arvind Hospitals has earned a name for Madurai in the World Map by preventing needless blindness.

Dr.Venkatasamy set very high standards in his profession as he was a seeker of perfection in everything he did. As he imbibed the valu'es of Gandhi, Vivekananda and sage Aravind he was successful in building a culture which permeates through the system, structure and procedures and standards of Aravind Eye Hospital. No doubt great leaders create great organisations.

QUESTIONS

1. Comment on the institution building nature of Dr.Venkatasamy as a leader?

2. Comment on the leadership style of Dr.Venkatasamy. How does it differ from conventional style?

INFOSYS AND NARAYANA MURTHY

Infosys was started in 1981 by seven professionals with entrepreneurial spirit, led by Narayana Murthy as the Chairman with an equity capital of Rs.1 0,000/- . Narayana Murthy is basically an Electrical Engineer from University of Mysore (1967) and he took his post graduate degree from liT, Kanpur in 1969. Young Narayana Murthy was influenced by communist ideology. However, his assignment in Paris for designing a 400 terminal, realtime operating system for handling air cargo for Charles De Gaulle airport and his tour to Europe changed his mindset completely. He strongly believed that poverty in India could be eradicated by encouraging entrepreneurship and creating more jobs.

From its inception, Infosys has focussed on US market as Narayana Murthy firmly believed that Indian companies have a competitive advantage. Infosys is one of the biggest exporter of software from India.

In 1987, Infosys entered into a joint venture with Kurt Salmon Associates, a management consultancy firm which was the first Indo-American joint venture in the US. In 1988-89, Infosys got the contract for developing the Distribution Management Application Package for Reeboks' French operation. Later on Infosys standardised the package for similar operations. In 1989, Infosys bagged a contract from Digital Equipment. Software development work would be done in India and profitable selling meant focusing exclusively on US. The second aspect of Narayana Murthy'S global strategy is "moving up the value chain" which means getting involved in a software development project at the earliest stage of its life cycle. Infosys had to compete with Cambridge Technology Partners and Anderson Consulting which was tough. The third aspect of strategy is PSPD i.e.,

1. Predictability of revenue;
2. Sustainability of the predictions;
3. Profitability of revenues;
4. A good derisking model.

Narayana Murthy firmly believed that the four fundamental aspects are inevitable for any business. Oeriskinging involves limiting exposure to businesses such as Y2K projects (less than 25% of revenue).

Infosys has been considered to be the best managed companies in Asia according to the survey conducted by Euromoney, a finance magazine.

The attrition rate in Infosys is quite low i.e., 10% whereas the industry average is 25%. The company encourages promotion from within. Employee Stock Option Scheme was first introduced by Narayana Murthy hence many employees are millionaires. Excellence and open communication is very much encouraged in Infosys.

The corporate governance practices introduced by Narayana Murthy brought laurels to the company. Infosys adopted Generally Accepted Accounting Practices (GAAP) many years before others adopted in India. Narayana Murthy tried to introduce transparency anc fairness in its operations and adhered to values and ethical conduct of business. Government of India selected Infosys for the 'National Award for Excellence in Corporate Governance'. He started the Leadership Institute in Mysore to develop Infosys employees sos to cope up with complexities of change and changed work culture through leadership skill training. Narayana Murthy has built an organisation which is much respected in India. With his sound management skills and strong systems, he took Infosys to the peak of success in two decades.

QUESTION

1. Comment on the institution building capability of Narayana Murthy.

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