Strategic Management

BBA 6th Semester

UNIT- I

Nature & Importance of Business Policy

As already observed, policies are basically formulated by the two management or the general management for guiding, directing and facilitating the thinking and acting process of the various functional executives, to ensure the best contribution towards the corporate objectives and goals. Policy can either is formal or informal, which can be applied, implied or imposed.

It originates from the top management for the express purpose of guiding themselves and their subordinates to make use of their operational tools as effectively as possible. It also enables to set objectives for the whole organization in general and for the various functional areas in particular.

It is the corporate policy that creates a sense of mission and purpose in the executive value judgment, and in their managerial operations, because a direct and purposeful preparation to face the challenges, opportunities and threats of the day-to-day business activities, is provided by the business policy from time to time.

According to Edmund, the associates' business policy is concerned with the top management function of:

1. Shaping high-level, long-range corporate objectives and strategic that will be matched, to both company capacities and to external realities in a world marked by rapid technological, economical, social and political change.
2. Casting up an effective well-matched set of general policies for the pursuit of that strategy.
3. Guiding the organization in accordance with that strategy.

The mission of the top management is influenced by the policy at various levels and phases. They are:

1. Perception of industry and economic trends that affect the prospects of the economy.
2. Clearly understanding the needs, opportunities, threats, strengths, weakness and problems.
3. Selecting the best opportunity or opportunities from an array of them, this can cope with the capacity of the company.
4. Formulating of a strategy taking into account the opportunity and availability of resources.
5. Development of operating plans for the pursuit of the chosen strategy and policies.
6. Creation of organizational relationships, organizational climate, and an atmosphere for the proper implementation of policy.
7. Evaluating the performance and the progress, and
8. Periodic re-evaluation of positions in the light of developments within the organization and its environment.

To sum up it can observe that the overall performance of the company depends on the pragmatic policies, and the top management is mainly responsible for the policy formulation.

Business policies cover such a wide variety of subjects and are so broad-based that every possible matter that affects the interests of any one in the organization, the community and the government are included in them.

In fact, business policies cover all the functional areas of business- production, marketing, personnel and finance. These functional areas are generally covered by the term as “major policies” and “minor policies”.

Parameters of Policy:

There are certain parameters for business policy, they are:

1. Policy should be identifiable and clear, either in words or in practice.
2. Objectives of the policy should be fully identified and well defined.
3. Policy should not be conflicting with other functional and divisional policies of the company.
4. The policy should be capable enough to fully exploit the opportunities.
5. Policy should be characterized by fairness and honesty with organizational philosophy, objectives, goals and strategy.
6. Policy should be appropriate to the desired level of contribution to society.
7. Policy should be acceptable to all concerned; i.e., it should be appropriate to the personal values and aspirations of the key managers.
8. Policy should constitute a clear stimulus to organizational effort and commitment.
9. Policy should always be realistic.

Features of Business Policy

An effective business policy must have following features-

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

Difference between Policy and Strategy

The term “policy” should not be considered as synonymous to the term “strategy”. The **difference between policy and strategy** can be summarized as follows-

1. Policy is a blueprint of the organizational activities which are repetitive/routine in nature. While strategy is concerned with those organizational decisions which have not been dealt/faced before in same form.
2. Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.
3. Policy deals with routine/daily activities essential for effective and efficient running of an organization. While strategy deals with strategic decisions.

4. Policy is concerned with both thought and actions. While strategy is concerned mostly with action.
5. A policy is what is, or what is not done. While a strategy is the methodology used to achieve a target as prescribed by a policy.

Importance of Business Policy Plans

Business policies are important and affect everything from legal liabilities to employee satisfaction and a positive public image. Policies make sure everyone is on the same page when it comes to expectations of certain things. A business might have policies pertinent to different aspects of the company. There may be safety policies, human resources hiring policies and anti-discrimination policies. There may also be policies that pertain to employees' dress code, lunch schedules, time off and holidays. Other policies are relevant to the customer experience including greeting customers, phone call management and product delivery specifics.

All of these policies create a positive work environment. Employees who feel safe at work from injury or discrimination are happier and more productive. This is an important aspect of productivity that every business owner must consider. When employees have specific directives on dress code, scheduling and requesting time off, it levels the field and shields employees from favoritism. It sets the tone of the office dynamic and the foundation for teamwork. Simply organizing schedules requires working as a team, or at least considering others on the team.

When it comes to policies on operations and the customer experience, this is imperative to consistent operations and being able to troubleshoot potential problems. If the policy is to follow up after a product is delivered, and that doesn't happen, managers can target that segment of the process to higher returns.

Establishing a Corporate Culture

When policies are clearly laid out in a written plan, expectations are set. This starts to establish a corporate culture of what to do, what not to do and how to act. Employees who are given expectations in a clearly outlined format, are better able to perform those duties and tend to veer less often from the "script" than employees who are employed in businesses that do not have clearly written policies.

Of course, policies mean nothing if management is not going to implement the policies. Some policies, such as safety and discrimination, have legal ramifications, and directly affect productivity and customer satisfaction. If a manager isn't going to require that employees adhere to the policy of a six-month review after purchase, then the company might lose business and the manager will find it harder to start the enforcement policy.

For example, Google has a corporate culture that is very employee-driven, meaning that parents can adjust schedules around child-care hours; dog owners can bring Fido to work, and employees are allowed to spend part of their time on personal projects they'd like to develop, not only on what project was assigned. This is a lot of flexibility that's outlined with very clear parameters by the company, so that employees know where the boundaries are. As a result, Google is a place where people like to work, and this policy has resulted in Google becoming a global leader in technology.

Employee Business Policy Training

Business leaders must train employees on business policy. Every employee should receive an employee handbook outlining all policies in one central document. Updates should be disseminated in writing as amendments to the handbook. Should the handbook become outdated, it should be revised so the newly implemented changes are integrated into the employee handbook.

Employers should also keep the handbook accessible via the cloud or online portals so employees are able to access it if there is a question. Additionally, by having it online, there is no excuse for any employee to say they didn't know.

But this isn't enough. Employers should hold training sessions to review key policies. Many businesses are holding inclusivity training, helping employees better understand what type of language or actions could be perceived as harassment or discrimination. Don't assume employees know right from wrong. Train them to understand it. This helps keep the business and the employee out of legal trouble.

The same is true when it comes to operations. If you need employees to follow a specific script on the phone, the review it with them and role play. This holds true for personal interactions as well. Don't just review sales processes. Take the time to review potential customer service issues so that employees are better trained to address potential problems during the day. The more an employee can deal with customer problems, the less is redirected up the chain of command to leadership. That frees up business leaders to focus on growth and development strategies.

Violations of Business Policy

It is important to be consistent with any business policy. Even something as simple as "every off-site worker will have the shirt tucked in" requires management. As already discussed, you can't pick and choose when to implement a policy. This creates confusion and animosity among employees who don't know what version of the boss will be coming in on any given day.

If a business policy is implemented and consistently managed, then you need to hold employees accountable for violations. There should be a process or protocol for management to follow that is appropriate for the action. This helps you document what is going on with employees and determine if anyone employee needs to be released.

For example, if the policy is for all men to wear a tie and for all women to wear pantyhose, the process for violation might be a verbal warning followed by a write-up in the employee's file. Repeat violations would result in a further disciplinary action such as probation or even suspension. On the other hand, if the policy is that a hard hat must be worn on site at all times, a violation becomes a safety issue and requires immediate action, including being written up and removed from the site.

Policies revolving around legalities such as harassment and discrimination should require involving legal experts, law enforcement if necessary and performing an investigation to determine the truth. Individuals may be separated and job duties may be adjusted pending the investigation but firing rarely is appropriate prior to an investigation's conclusion.

Importance of Your Business Policy

The policies and methods of implementation you choose as a business leader to adopt will directly affect how your employees perform. Some business leaders don't want to have everything in a rigid format while others like to implement specific processes at every stage of the company operational process. This is a business owner's decision.

Keep in mind that some policies and procedures are designed to prevent legal issues while others are designed to build a company image, experience and culture. A business leader should be aware of how policies are affecting his team. If a dress code is becoming a problem for the majority of employees, a new policy such as a casual Friday policy could change the office dynamic in a positive direction. If no cell phone policy exists but employees are spending hours on personal calls, texts and social media then a new policy with training should be implemented and managed to improve productivity. Managers should regularly evaluate company policies and their effectiveness to the business' success.

Building Business Policies

Establishing policies generally starts with a business owner or his initial leadership team writing an employee handbook and business plan with mission and vision. The team must consider what are standard policies regulated by federal and state regulations. Some regulated policies include privacy policies, anti-discrimination rules, overtime and holiday pay and even healthcare programs.

Most businesses will find these regulated rules are similar among many companies though some companies decided to go beyond the required policies. Then there are the operations and cultural policies. These include the image that leaders want the company to have and the internal corporate culture they are working to establish. Everything from dress code to smoking at work might be defined by a business policy.

Once the main policies are created, business leaders must keep a pulse on how employees and customers respond to the policies. If a policy is having a negative impact on the overall productivity of the company, feedback must be sought and adjustments considered. Every business leader must have this as his own policy for success. Businesses are fluid entities that are always changing. Being too rigid can result in negative performance and negative results. Troubleshooting production problems sometimes start with troubleshooting business policies.

Development of Business Policy

1 COMMENT

1. Environmental Scanning:

Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identify strategic factors those external and internal elements that will determine the future of the corporation.

The simplest way to conduct environmental scanning is through SWOT analysis. SWOT is an acronym used to describe those particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company.

The external environment consists of variables (Opportunities and Threats) that are outside the organization and not typically within the short-run control of top management. These variables form the context with which the corporation exists.

The internal environment of a corporation consists of variables (Strengths and Weaknesses) that are with the organization itself and are not usually within the short-run.

Control of top management. These variables form the context in which work is done. They include the corporation's structure, culture, and resources. Key strengths form a set of core competencies that the corporation can use to gain competitive advantage.

2. Policy Formulation:

Policy formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies, and setting policy guidelines.

Mission:
An organization's mission is the purpose or reason for the organization's existence. It tells what the company is providing to society, either a service like house cleaning or a product like automobiles. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from the other firms of its type and identifies the scope of the company's operations in terms of products (including services) offered and markets served.

It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but also what it wants to become management's strategic vision of the firm's future. (Some people like to consider vision and mission as two different concepts.

A mission statement describes what the organization is now; a vision statement describes what the organizations would like to become. We prefer to combine these ideas into a single mission statement).

The mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company's task environment. It tells who we are and what we do as well as what we'd like to become.

One example of a mission statement is that of TTK Groups:

To improve the quality of home life by designing building, marketing and servicing the best appliances in the world.

A mission may be defined narrowly or broadly in scope. An example of a broad mission statement is that used by many corporations. Serve the best interests of shareowners, customers, and employees.

A broadly defined mission statement such as this keeps the company from restricting itself to one field or product line, but it fails to clearly identify either what it makes or which product/markets it plans to emphasize. Because this broad statement is so general, a narrow mission statement, such as the receding one by TTK appliances is more useful.

A narrow mission very clearly states the organization's primary business, but it may limit the scope of the firm's activities in terms of product or service offered, the technology used, and the market served. Instead of just stating it is a "railroad," a company might be better calling itself a "transportation company."

Objectives:
Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfillment of a corporation's mission. In effect, this is what society gives back to the corporation when the corporation does a good job of fulfilling its mission.

Robert, Chairman of Deere & Company, the world's largest maker of farm equipment, uses the phrase "double and double again" to express ambitious objectives for the company. "It gives us a sense that we're on the move," explained Robert.

For example, the Deere's current objectives is to double the market value (number of shares multiplied by stock price) of the company (8 crore in 2000) to 16 crore and then to double it again to 32 crore over 10 years.

Similarity the sales objective is to have sales (13 crore in 2000) double and double again over the next 10 years.

The term 'goal' is often used interchangeably with the term 'objective'. In this paragraph, we prefer to differentiate the two terms. In contrast to an objective, we consider a goal statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for completion.

For example, a simple statement of "increased profitability" is thus a goal, not an objective, because it does not state how much profit the firm wants to make the next year. An objective would say something like, "increase profits 10% over last year."

Some of the areas in which a corporation might establish its goals and objectives are:

1. Profitability (net profits)
2. Efficiency (low costs, etc.)
3. Growth (increase in total assets, sales, etc.)
4. Shareholder wealth (dividends plus stock price appreciation)
5. Utilization of resources (return on investment or equity)
6. Reputation (being considered a 'top' firm)
7. Contributions to employees (employment security, wages, diversity)
8. Contributions to society (taxes paid, participation in charities, providing a needed product or service)
9. Market leadership (market share)
10. Technological leadership (innovations, creativity)
11. Survival (avoiding bankruptcy)
12. Personal needs of top management (using the firm for personal purposes, such as providing jobs for relatives).

Strategies:
A strategy of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantage. For example, after Rockwell International Corporation realized that it could no longer achieve its objectives by continuing with its strategy of diversification into

multiple lines of businesses, it sold its aerospace and defence units to Boeing. Rockwell instead chose to concentrate o commercial electronics; an area that management felt had greater opportunities for growth.

The typical business firm usually considers 3 types of strategy:

Corporate, Business and Functional.

1. Corporate Strategy describes a company's overall direction in terms of its general attitude towards growth and the management of its various businesses and product lines. Corporate strategies typically fit within the 3 main categories of stability, growth strategy by acquiring other appliance companies in order to have a full line of major home appliances.
2. Business Strategy usually occurs at the business unit or product level, and it emphasizes improvement of the competitive position of a corporation's products or services in the specific industry or market segment served by that business units.

Business strategies may fit within the two overall categories of competitive or cooperative strategies. For example, Apple Computer uses a differentiation competitive strategy that emphasizes innovative products with creative design.

The distinctive design and colours of its iMac line of personal computers (when contrasted with the usual beige of the competitor's products) has successfully boosted the company's market share and profits. In contrast British Airways followed a cooperative strategy by forming an alliance with American Airlines in order to provide global service.

3. Functional Strategy is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.

Examples of R&D functional strategies are technological follower ship (imitate the products of other companies) and technological leadership (pioneer an innovation). For years, Magic Chef had been a successful appliance maker by spending little on R&D but by quickly imitating the innovations of other competitors.

This helped the company to keep its costs lower than its competitors and consequently to compete with lower prices. In terms of marketing functional strategies. Procter & Gamble is masters of marketing "pull" the process of spending huge amounts on advertising in order to create customer demand. This supports P&G's competitive strategy of differentiating its products from its competitors.

Business firms use all 3 types of strategy simultaneously. A hierarchy of strategy is the grouping of strategy types by level in the organization. This hierarchy of strategy is a nesting of one strategy within another so that they complement and support one another. Functional strategies support business strategies, which, in turn, support the corporate strategies.

Just as many firms often have no formally stated objectives, many firms have unstated, incremental or intuitive strategies that have never been articulated or analyzed. Often the only way to sot a corporation's implicit strategies are to look not at what management says, but at what it does.

Implicit strategies can be derived from corporate policies; programs approved (and disapproved), and authorized budgets. Programs and divisions favored by budget increases and staffed by managers who are considered to be on the fast promotion track reveal where the corporation is putting its money and its energy.

Policies:
A policy is a broad guideline for decision-making that links the formulation of strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives and strategies.

For example, consider the following company policies:

Intel:
Cannibalize our product line (undercut the sales of your current products) with better products before a competitor does it to you. (This supports Intel's objective of market leadership.)

General Electric:
GE must be number 1 or 2 wherever it competes. (This supports GE's objective to be number 1 in market capitalization.)

3M:
Researchers should spend 15% of their time working on something other than their primary project. (This supports 3M's strong product development strategy.)

Policies like these provide clear guidance to managers throughout the organization.

3. Policy Implementation:

Policy implementation is the process by which strategies and policies are put into action through the development of programs, budgets, and procedures. This process might involve changes within the overall culture, structure, and /or management system of the entire organization.

Except when such drastic corporate-wide changes are needed, however, the implementation of strategy is typically conducted by middle and lower level managers with review by top management. Sometimes referred to as operational planning, strategy implementation often involves day-to-day decisions in resource allocation.

Programs:
A program is a statement of the activities or steps needed to accomplish a single-use plan. It makes the strategy action oriented. It may involve restructuring the corporation, changing the company's internal culture, or beginning a new research effort. For example, consider Intel Corporation, the microprocessor manufacturer.

Realizing that Intel world not be able to continue its corporate growth strategy without the continuous development of new generations of microprocessors, management decided to implement a series of programs:

1. They formed an alliance with Hewlett-Packard to develop the successor to the Pentium Prochip.
2. They assembled an elite team of engineers and scientists to do long-term, original research into computer chip design.

Another example is FedEx Corporation's program to install a sophisticated information system to enable its customers to track their shipments at any point in time. FedEx thus installed computer terminals at 100,000 customers and gave proprietary software to another 650,000 so shippers could label much of their own packages.

Budgets:
A budget is a statement of a corporation's programs in terms of money. Used in planning and control, a budget lists the detailed cost of each program. Many corporations demand a certain percentage return on investment, often called a ''hurdle rate," before management will approve a new program.

This ensures that the new program will significantly add to the corporation's profit performance and thus build shareholder value. The budget thus not only serves as a detailed plan of the new strategy in action, but also specifies through pro forma financial statements the expected impact on the firm's financial future.

Procedures:
Procedures, sometimes termed Standard Operating Procedures (SOP), are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete the corporation's programs.

For example, Delta Airlines used various procedures to cut costs. To reduce the number of employees, Delta asked technical experts in hydraulics, metalworking, avionics, and other trades to design cross-functional works teams.

To cut marketing expenses, Delta instituted a cap on travel agent commissions and emphasized sales to bigger accounts. Delta also changed its purchasing and food service procedures.

4. Evaluation and Control:

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems.

Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

Performance is the end result of activities. It includes the actual outcomes of the strategic management process. The practice of strategic management is justified in terms of its ability to improve an organization s performance, typically measured in terms of profits and return on investment.

For evaluation and Control to be effective, managers must obtain clear, prompt and unbiased information from the people be low them in the corporation s hierarchy. Using this information, managers compare what is actually happening with what was originally planned in the formulation stage.

The evaluation and control of performance completes the strategic management model. Based on performance results, management may need to make adjustments in its strategy formulation, in implementation, or in both.

Classification of Business Policy

Policies may be divided into different types of policies from different approaches.

A. On the Basis of Source:
Koontz and O'Donnell divide the sources of policy into the following four types:

(i) Originated Policy

(ii) Appealed Policy

(iii) Implied Policy

(iv) Externally imposed policy

1. **Originated Policy:**

   By originated policy they refer to policy which originates from the top management itself. These policies are aimed at guiding the managers and their subordinates in their operations. They flow basically from the organisation's objectives as defined by top management. From the broad policy at the top, other derived policies may be developed at subsequent levels depending upon the extent of decentralization. However, all such policies, whether originated by top management or subordinate managers, are described as "originated policy".

2. **Appealed Policy:**

   It is meant decisions given in case of appeals in exceptional cases upto management hierarchy. In case of doubts, an executive refers to higher authority on how he should handle the matter. The direction that he gets is described as appealed policy and constitutes a precedent for future managerial action.

3. **Implied Policy:**

   Implied policy is meant policies which emanate from conduct. It also originates where existing policies are not enforced. Again, guidelines may be provided by the decision makers unconsciously and become implied policies.

4. **Externally Imposed Policy:**

Policies may be imposed externally that is from outside the organisation on such as by Government control or regulation, trade associations and trade union etc.

B. On the Basis of different Levels:

Policies are divided into the following types on the basis of levels:

1. Basic Policies.
2. General policies.
3. Departmental Policies.

1. Basic Policies:

Policies which are followed by top management level are called as basic policies. For example, the branches will be opened in different place where the sales exceed Rs. Five, lakhs.

2. **General Policies:**

These policies affect the middle level management and more specific than basic policies.

Example:

Payment will be provided for overtime work only if it is allowed by the management.

3. **Department Policies:**

These policies are highly specific and applicable to the lower levels of management.

Example:

Tea will be provided free for workers in night shifts.

C. On the Basis of Managerial Functions:

Policies arise from decision pertaining to fundamental managerial functions are called managerial policies.

These includes the following policies:

1. Planning policies.
2. Organisation policies.
3. Motivation and control policies.

1. Planning Policies:

Planning policies involve the future course of action. Mere policies are formulated as to achieve the targets regarding the future. Planning policies may formulate for whole organisation or for divisional departments.

2. **Organisation Policies:**

These policies are highly specific to organisational goals and objectives.

3. **Motivation and Control Policies:**

Here policies are formulated to motivate people and control the activities, which leads to achieve the organisational objectives with the fullest satisfaction of employees.

D. On the Basis of Dissemination:

Policies can be classified into two types on the basis of dissemination:

1. Written statements—Explicit policies.
2. Oral dissemination—Implicit policies.

Explicit Policies:

Policies which are in writing or included in the manual or records are called explicit policies. In case of written statements adequate media should be used.

The following are some of the written media:

(a) Bulletins or notice boards.

(b) Hews releases.

(c) Company manuals or handbooks.

Advantages of written policy:

(a) All the members of the organisation can be guided as to the exact interpretation of policies so that they all possess a common understanding.

(b) It can be more easily reviewed from time to time to meet changing conditions.

(c) It can be checked more readily for compliance within the organisation.

(d) Policies becomes available in the same form to all concerned.

(e) They can be communicated and taught to new employees more readily.

(f) The process of writing down policies forces the managers concerned to think through more clearly about the policy.

Disadvantage of written policies:

(a) Written policies are inclined to promote rigid thinking and prevent flexibility which may be undesirable in special circumstances.

(b) It is difficult to adopt written policies to situations and conditions which change from time to time. There is bound to be a time lag for incorporation of such changes into existing written policies.

(c) Although in one sense there is uniform communication of policies in the form of a written statement it is likely to be interpreted in many cases differently depending on the background of the interpreter.

(d) In case of confidential policy statements, there is a greater chance of their being communicated to those from whom they are to be kept secret, thus, probably marring the strength of the organisation.

(e) Difficult to write it accurately and adequately.

2. **Implicit Policies:**

Implicit policies are disseminated merely by word of mouth through the key people in an organisation. Policies which are not in writing or not included in the manuals or records but which are well understood and practised are called implicit policies.

E. On the Basis of Functions:

Policies which affect the functions of business are called as functional policies.

Functional policies can be classified as follows:

1. Marketing policies.
2. Production policies.
3. Finance policies.
4. Personnel policies.

Marketing Policies:

Basically marketing policies relate to each of the “four Ps in marketing” namely.

(a) Product,

(b) Pricing,

(c) Promotion, and

(d) Physical distribution.

(a) Product Policies:

In connection with product policies for example a policy decision might have to be taken as to whether to make or buy the product. Policy decisions might have to be laid down with regard to the nature and extent of diversification, for example whether diversification in the future will always be in terms of related products or whether new product ideas can be considered in connection with unrelated products.

The make or buy decision can also be a part of the product on policy but can be part of the marketing strategy which is concerned with the overall strategy of the business.

(b) Pricing Policies:

Policy decisions have to be taken in the area of pricing. The market segment or segments aimed at determination of price range. The policy decisions on pricing are also affected by the type of trade channels and the discounts that might have to be offered.

(c) Promotion Policies:

The promotional policy is also tied in with the pricing policies. The policy to concentrate on certain advertising media would be dictated in terms of product policies and the customer segment involved. Policy decisions would also help in arriving at the amount to be spent on promotional activities.

Certain organisations fix a policy of budgeting a certain percentage, say 5% of the rates for advertising expenditure. Some organisations adhere the policy of certain fixed return on investment for arriving at the advertising expenditure to be permitted.

(d) Physical Distribution Policies:

Policy decisions have to be taken in the area of physical distribution of the product which involves considerations of channels of distribution and logistics. Difficult policy decisions are involved in arriving at the selection of an appropriate set of distribution channels for the products of the company. Some organisations prefer to give sole distribution ships. Some others advocate the policy of direct selling.

2. **Production Policies:**

Production policy decisions involves with the following:

1. a) The size of the run,
2. b) Automation,
3. c) Production stabilisation,
4. d) Extent of making or buying component, and
5. e) Inventory levels.

(a) The Size of the Run Policy:

This depend on the backlog or orders as well as the nature of automation introduced. It will also depend on the type of the market. The temptation is to increase the size of the run to take advantage of avoiding the setup costs. However, these have to be weighed against the cost of heavier inventories.

(b) Automation Policy:

The automation involves consideration of technical problems apart from economic aspects. The policy of increasing automation or mechanisation may be merely with a view to avoid repetitive and uninteresting work or it may be to reduce costs. Policy decisions, however, have to be taken in this behalf at the top level.

(c) Production Stabilisation Policy:

It is related to the size of the run and the extent of automation. Production has to be stabilized through proper timing as market demands cannot be overlooked.

(d) Make or Buy Policy:

It is related to both the marketing policy as well as production policy. Policy decisions have to be taken as to the extent of the product that has to be manufactured within the organisation itself and the extent, if any of purchases from outside.

(e) Inventory Levels Policy:

This policy involves with the levels of inventory or stocks. These should be maintained in the exact extent. Higher inventories increase the costs and reduce the ultimate profits.

3. **Financial Policies:**

Financial policies related to the following:

(a) Sources of capital

(b) Working capital

(c) Profit distribution.

(d) Depreciation allowances.

(a) Sources of Capital:

This policy involves the sources of capital, `that is from which ways, an organisation can accumulate its capital. For example in case of sole trader, he/ she provide the capital form his/her own money or by loans from individual or bank. In partnership, partners provide the basic capital. In companies, large capital is possible from large number of shareholders.

(b) Working Capital Policy:

The difference between the current assets and current liabilities is the working capital. Since the working capital determines how far the business organisation or business unit can immediately meet its obligations, the policy decision will have to take in the area of working capital. These policies are also concerned with the extent of bank borrowings permissible and allowances of credit facilities that should be extended to the customers.

(c) Profit Distribution Policy:

It involves with regard to how much profits should be distributed by way of dividends to the shareholders and how much should be kept back for future capital requirements. Some companies follow a policy of dividend equalization by setting aside profits in good years to be used for payment of dividend in lean years.

(d) Depreciation Allowance Policy:

Policy decisions have to be taken on the extent of depreciation to be written off whilst keeping in mind the tax provision as well as its possible use as a source of funds for the enterprise.

4. **Personnel Policies:**

This policy decisions have to be taken in connection with personnel administration.

These relate to the following.

(a) Personnel selection.

(b) Training and promotion.

(c) Remuneration and benefits.

(d) Industrial relations.

(a) Personnel Selection Policy:

It involves with the source of recruitment e.g., policy decisions may be taken with regard to the minimum educational or experience requirements.

(b) Training and Promotion Policy:

Policy decisions have to be taken with regard to manpower planning and filling up higher vacancies by promotion from within. A policy of promotion from within presupposes the existence of adequate training policies to develop persons for each higher positions.

(c) Remuneration and Benefit Policy:

These policies regard with the remuneration and other benefits of employees. Other benefits include sick leave, vacations, canteen facilities and working conditions. In case of sales force, some organisations prefer to rely merely on salaries, but some other companies wish to build in a commission component to provide the necessary incentive.

(d) Industrial Relations Policies:

Proper policy decisions must be taken in connection with dealing with labour disputes and avoiding them in the future.

UNIT- II

Business Strategy

Strategy Formulation: Corporate, Business, Functional strategy

Strategy can be formulated at three levels, namely, the corporate level, the business level, and the functional level. At the corporate level, strategy is formulated for your organization as a whole. Corporate strategy deals with decisions related to various business areas in which the firm operates and competes. At the business unit level, strategy is formulated to convert the corporate vision into reality. At the functional level, strategy is formulated to realize the business unit level goals and objectives using the strengths and capabilities of your organization. There is a clear hierarchy in levels of strategy, with corporate level strategy at the top, business level strategy being derived from the corporate level, and the functional level strategy being formulated out of the business level strategy.

In a single business scenario, the corporate and business level responsibilities are clubbed together and undertaken by a single group, that is, the top management, whereas in a multi business scenario, there are three fully operative levels.

Levels of Strategy

1. **Corporate Level**

Corporate level strategy defines the business areas in which your firm will operate. It deals with aligning the resource deployments across a diverse set of business areas, related or unrelated. Strategy formulation at this level involves integrating and managing the diverse businesses and realizing synergy at the corporate level. The top management team is responsible for formulating the corporate strategy. The corporate strategy reflects the path toward attaining the vision of your organization. For example, your firm may have four distinct lines of business operations, namely, automobiles, steel, tea, and telecom. The corporate level strategy will outline whether the organization should compete in or withdraw from each of these lines of businesses, and in which business unit, investments should be increased, in line with the vision of your firm.

2. **Business Level**

Business level strategies are formulated for specific strategic business units and relate to a distinct product-market area. It involves defining the competitive position of a strategic business unit. The business level strategy formulation is based upon the generic strategies of overall cost leadership, differentiation, and focus. For example, your firm may choose overall cost leadership as a strategy to be pursued in its steel business, differentiation in its tea business, and focus in its automobile business. The business level strategies are decided upon by the heads of strategic business units and their teams in light of the specific nature of the industry in which they operate.

3. **Functional Level**

Functional level strategies relate to the different functional areas which a strategic business unit has, such as marketing, production and operations, finance, and human resources. These strategies are formulated by the functional heads along with their teams and are aligned with the business level strategies. The strategies at the functional level involve setting up short-term functional objectives, the attainment of which will lead to the realization of the business level strategy.

For example, the marketing strategy for a tea business which is following the differentiation strategy may translate into launching and selling a wide variety of tea variants through company-owned retail outlets. This may result in the distribution objective of opening 25 retail outlets in a city; and producing 15 varieties of tea may be the objective for the production department. The realization of the functional strategies in the form of quantifiable and measurable objectives will result in the achievement of business level strategies as well.

Strategies: Stability, Expansion, Retrenchment and Combination strategies

Growth is essential for an organization. Organizations go through an inevitable progression from growth through maturity, revival, and eventually decline. The broad corporate strategy alternatives, sometimes referred to as grand strategies, are: **stability/consolidation, expansion/growth, divestment/ retrenchment and combination strategies**. During the organizational life cycle, managements choose between growth, stability, or retrenchment strategies to overcome deteriorating trends in performance.

At the core of strategy must be a clear logic of how the corporate objectives, will be achieved. Most of the strategic choices of successful corporations have a central economic logic that serves as the fulcrum for profit creation.

Some of the major economic reasons for choosing a particular type strategy are:

(a) Exploiting operational economies and financial economies of scope.

(b) Uncertainty avoidance and efficiency.

(c) Possession of management skills that help create corporate advantage.

(d) Overcoming the inefficiency in factor markets and

(e) Long term profit potential of a business.

The non-economic reasons for the choice of strategy elements include :

(a) Dominant view of the top management,

(b) Employee incentives to diversify (maximizing management compensation),

(c) Desire for more power and management control,

(d) Ethical considerations and

(e) Corporate social responsibility.

STABILITY STRATEGY

Stability strategy is a strategy in which the organization retains its present strategy at the corporate level and continues focusing on its present products and markets. The firm stays with its current business and product markets; maintains the existing level of effort; and is satisfied with incremental growth. It does not seek to invest in new factories and capital assets, gain market share, or invade new geographical territories. Organizations choose this strategy when the industry in which it operates or the state of the economy is in turmoil or when the industry faces slow or no growth prospects. They also choose this strategy when they go through a period of rapid expansion and need to consolidate their operations before going for another bout of expansion.

EXPANSION STRATEGY

Firms choose expansion strategy when their perceptions of resource availability and past financial performance are both high. The most common growth strategies are diversification at the corporate level and concentration at the business level. Reliance Industry, a vertically integrated company covering the complete textile value chain has been repositioning itself to be a diversified conglomerate by entering into a range of business such as power generation and distribution, insurance, telecommunication, and information and communication technology services.

Diversification is defined as the entry of a firm into new lines of activity, through internal or external modes. The primary reason a firm pursues increased diversification are value creation through economies of scale and scope, or market dominance. In some cases firms choose diversification because of government policy, performance problems and uncertainty about future cash flow. In one sense, diversification is a risk management tool, in that its successful use reduces a firm’s vulnerability to the consequences of competing in a single market or industry. Risk plays a very vital role in selecting a strategy and hence, continuous evaluation of risk is linked with a firm’s ability to achieve strategic advantage (Simons, 1999). Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. Diversification is accomplished through external modes through acquisitions and joint ventures. Concentration can be achieved through vertical or horizontal growth. Vertical growth occurs when a firm takes over a function previously provided by a supplier or a distributor. Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in current markets.

RETRENCHMENT STRATEGY

Many firms experience deteriorating financial performance resulting from market erosion and wrong decisions by management. Managers respond by selecting corporate strategies that redirect their attempt to turnaround the company by improving their firm’s competitive position or divest or wind up the business if a turnaround is not possible. Turnaround strategy is a form of retrenchment strategy, which focuses on operational improvement when the state of decline is not severe. Other possible corporate level strategic responses to decline include growth and stability.

COMBINATION STRATEGY

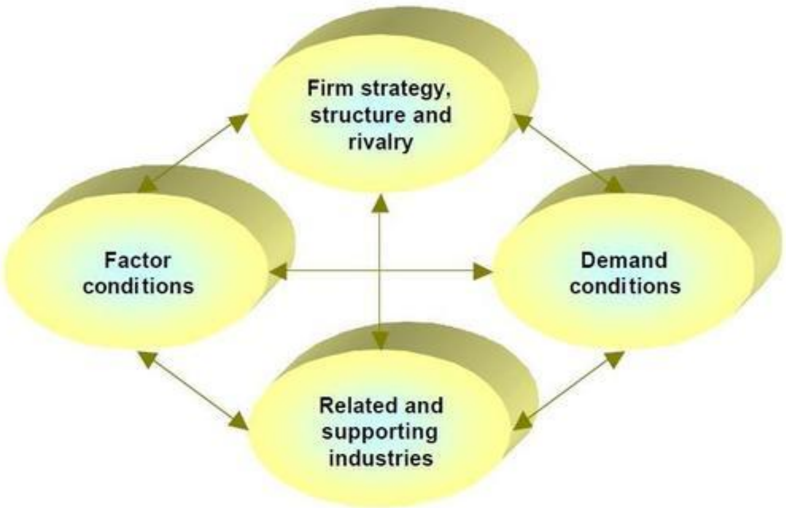
The three generic strategies can be used in combination; they can be sequenced, for instance growth followed by stability, or pursued simultaneously in different parts of the business unit. Combination Strategy is designed to mix growth, retrenchment, and stability strategies and apply them across a corporation’s business units. A firm adopting the combination strategy may apply the combination either simultaneously (across the different businesses) or sequentially. For instance, Tata Iron &

Steel Company (TISCO) had first consolidated its position in the core steel business, then divested some of its non-core businesses. Reliance Industries, while consolidating its position in the existing businesses such as textile and petrochemicals, aggressively entered new areas such as Information Technology.

Porters Model of Competitive Advantage of Nations

Increasingly, corporate strategies have to be seen in a global context. Even if an organization does not plan to import or to export directly, management has to look at an international business environment, in which actions of competitors, buyers, sellers, new entrants of providers of substitutes may influence the domestic market. Information technology is reinforcing this trend.

Michael Porter introduced a model that allows analyzing why some nations are more competitive than others are, and why some industries within nations are more competitive than others are, in his book The Competitive Advantage of Nations. This model of determining factors of national advantage has become known as Porters Diamond. It suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition. Porter distinguishes four determinants:



Factor Conditions

The situation in a country regarding production factors, like skilled labor, infrastructure, etc., which are relevant for competition in particular industries. These factors can be grouped into human resources (qualification level, cost of labor, commitment etc.), material resources (natural resources, vegetation, space etc.), knowledge resources, capital resources, and infrastructure. They also include factors like quality of research on universities, deregulation of labor markets, or liquidity of national stock markets. These national factors often provide initial advantages, which are subsequently built upon. Each country has its own particular set of factor conditions; hence, in each country will develop those industries for which the particular set of factor conditions is optimal.

This explains the existence of so-called lowcost-countries (low costs of labor), agricultural countries (large countries with fertile soil), or the start-up culture in the United States (well developed venture capital market). Porter points out that these factors are not necessarily nature-made or inherited. They may develop and change. Political initiatives, technological progress or socio-cultural changes, for instance, may shape national factor conditions. A good example is the discussion on the ethics of genetic engineering and cloning that will influence knowledge capital in this field in North America and Europe.

One internationally successful industry may lead to advantages in other related or supporting industries. Competitive supplying industries will reinforce innovation and internationalization in industries at later stages in the value system. Besides suppliers, related industries are of importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products (e.g. hardware and software).

A typical example is the shoe and leather industry in Italy. Italy is not only successful with shoes and leather, but with related products and services such as leather working machinery, design, etc.

Home Demand Conditions

Describes the state of home demand for products and services produced in a country. Home demand conditions influence the shaping of particular factor conditions. They have impact on the pace and direction of innovation and product development. According to Porter, home demand is determined by three major characteristics: their mixture (the mix of customers needs and wants), their scope and growth rate, and the mechanisms that transmit domestic preferences to foreign markets. Porter states that a country can achieve national advantages in an industry or market segment, if home demand provides clearer and earlier signals of demand trends to domestic suppliers than to foreign competitors. Normally, home markets have a much higher influence on an organization's ability to recognize customers' needs than foreign markets do.

Related and Supporting Industries

The existence or non-existence of internationally competitive supplying industries and supporting industries. One internationally successful industry may lead to advantages in other related or supporting industries. Competitive supplying industries will reinforce innovation and internationalization in industries at later stages in the value system. Besides suppliers, related industries are of importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products (e.g. hardware and software).

A typical example is the shoe and leather industry in Italy. Italy is not only successful with shoes and leather, but with related products and services such as leather working machinery, design, etc.

Firm Strategy, Structure, and Rivalry

The conditions in a country that determine how companies are established, are organized and are managed, and that determine the characteristics of domestic competition Here, cultural aspects play an important role. In different nations, factors like management structures, working morale, or interactions between companies are shaped differently.

This will provide advantages and disadvantages for particular industries. Typical corporate objectives in relation to patterns of commitment among workforce are of special importance. They are heavily influenced by structures of ownership and control. Family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies.

Porter argues that domestic rivalry and the search for competitive advantage within a nation can help provide organizations with bases for achieving such advantage on a more global scale.

Porters Diamond has been used in various ways

Organizations may use the model to identify the extent to which they can build on home based advantages to create competitive advantage in relation to others on a global front. On national level, governments can (and should) consider the policies that they should follow to establish national advantages, which enable industries in their country to develop a strong competitive position globally. According to Porter, governments can foster such advantages by ensuring high expectations of product performance, safety or environmental standards, or encouraging vertical co-operation between suppliers and buyers on a domestic level etc.

Affecting Factors in strategy formulation and implementation

The practice of strategy formulation is an ongoing exercise that is refined over the years. During the process, tools and techniques are validated and demonstrated by way of successful deployment in organizations. This is true for different kinds of organizations such as partnership firms, privately-held companies, corporate bodies, government businesses, and not-for-profit organizations.

Strategy formulation has to be scientific. We come across many instances wherein the strategic management process has failed to deliver the required results for competitive growth. This failure, in some cases, is attributed to a lacuna in the strategy formulation stage, leading to a failure in the subsequent strategy implementation stage. This obviously reflects the multiplicity and complexity of challenges faced at this stage.

The following points try to capture such challenges in the context of effective operation of a business:

i. Achieving Shared Vision:

This is one of the major issues in strategy formulation. There are instances where after choosing an appropriate strategy, the top management, among themselves and across organizations, fails to achieve synchronization of the vision, strategic intent and hence the strategy for way forward.

This leads to problems in implementation and in the obtainment of commitment from the stakeholders. This is a serious issue in making major decisions. For example, while venturing into inorganic moves such as mergers, acquisitions, sell offs, or divestiture, such instances are common. In this process, there could be a delay in pursuing the strategy, which may lead to value erosion.

One of the authors was involved in the selection of technology and boilers for a small power plant for co-generation of power and steam for processing. The delay in decision making made the company lose one operating season as it was a highly seasonal industry. The delay was mainly because the vision for co-generation of power was fully understood but the streamlining with operations was not clear. It required a combination of vision and operations expertise to consummate the idea, causing the delay.

To overcome such problems, creating a shared vision is critical. All successful organizations have one. Building confidence among stakeholders and communicating objectively are critical for creating a shared vision. It not only creates a shared vision but also a philosophy of oneness and growth through commitment of effort and energy for the benefit of all stakeholders.

ii. Inability of Partners to Map a Vision:
The inability of partners to map a vision and agree on strategy formulation could be another issue, especially in case of alliances and joint ventures, venture capitalists, and group companies. Though partners have well defined areas of interest, when it comes to the nitty-gritty of strategy formulation, there could be divergence of views. In addition, there could be a possibility of a dominant partner having a 'big brother' attitude, because of which the strategy formulation process could be jeopardized.

In case venture capitalists are active at the strategy formulation stage, they may try to overplay the role because of experience elsewhere or lack of on-ground realities. Many times, even debt fund providers drive strategic intent because of certain contractual clauses, such as the right to be present on the board. The inconvenient exposure may lead to a loss of control in making right decisions in the interest of all the stakeholders.

However, the problems among partners can be addressed by promoting healthy understanding and transparency. Key partners such as a venture capitalist can be given board responsibilities and may be involved in decision making. It may be a good idea to have an open and clear communication rather than taking problems to a breaking point and then trying to resolve them.

iii. Leadership and Managerial Bias:
Imposing leaders and self-motivated managers are often causes of dissonance at the strategy formulation stage. To overcome the same, leaders and managerial bias needs to be addressed effectively. A strong and active board is one which can balance this bias. Such an approach is possible only with large companies. Small and mid-sized companies have a problem in getting directors, who could overpower this bias, on the board of the company. In such cases, the strategy formulation team may need to involve the right advisors and experts to bring a balance.

Leaders who have a tendency to follow the success of others must be engaged in the details of operational situations and exposed to internal factors adequately so that someone's success is not imitated. Wherever leaders have a problem with respect to assimilating the nuances of technical or functional perspectives, adequate time must be allocated during the formulation stage. Without the right perspectives, if leaders are driving or are driven by any of the stakeholders, the post-decision correction process could be time consuming. In addition, such moves may lead to strategic lapses, requiring resources and effort.

iv. Managers Over-Emphasizing Tools and Techniques:
Another issue involves managers over-emphasizing tools and techniques and losing touch with the pulse of the market or going in the wrong direction due to a herd mentality. Sometimes, they may be following the market without understanding the internal factors, leading to difficulty in strategy formulation. This is the most common issue when external agents or advisors are used to formulate a strategy.

Many times, investment bankers get enthusiastic and highly impressed with an idea, which may result in a slip at the input stage of strategy formulation. There are a number of examples especially in major strategic decisions such as sell-offs, mergers, diversification, and funding, which state that such problems of investment bankers' overdrive have resulted in big mistakes.

It is not erroneous on the part of the advisors to commit to such situations. Many times, the internal strategists do not understand the situation in perspective or lack the ability to communicate clearly the various facets and risks of business. More importantly, the high brand value of such advisors overawes some clients, who leave the decision process to the advisors, instead of taking an active role.

The ability to manage the issue of bias towards tools and techniques, and find the right balance of experience, intellect and deployment of tools and techniques for decision making is required. This can again be achieved by involving senior board members and making a committee responsible for major strategic decisions. Such a committee can bridge the art and science of decision making for effective formulation of strategies.

UNIT- III

Functions and Role of Top Management

Responsibilities & Tasks of Top Management

"A manager is not a person who can do the work better than his team, he is a person who can get his team to do the work better than he can." A good manager can truly define the success of his employees and the company as a whole.

1. **Envisioning Goals**

The first and most important task of any manager is providing a direction to the organization. This entails mapping out their visions and missions.

This is one task the manager must not delegate, but perform himself. Defining the company's objectives helps unify the employees and gets them working towards a common goal.

2. **Managing Growth**

One of the main roles and responsibilities of the manager is to manage the growth and ensure the survival of the firm. There are both internal and external factors that are a threat to this growth and survival of the firm.

Internal factors (such as choosing the right technology, hiring the correct people etc) are mostly in the firm's control. External factors (government policy, economic conditions) pose a concern the manager must deal with.

3. **Improving and Maintaining Efficiency**

The manager has many roles and responsibilities regarding the efficiency of the firm. Firstly he must ensure that the firm is efficient, i.e. resources are not being wasted. And then this efficiency has to be effectively maintained.

4. **Innovation**

It is the task of the manager to be innovative in his job. He must find new and creative solutions to the problems faced by the firm. Innovation not only means having new ideas but also cultivating and implementing them. This is one of the on-going jobs of a professional manager.

5. **Looking out for the competition**

A manager has to plan and prepare for the competition in the market. He must never be caught unaware, he must prepare for new and/or increased competition.

6. **Leadership**

The quality of the leadership usually dictates the future of a firm. Hence the manager must also be a good leader. He should be able to inspire and motivate people to work towards the goals of the company.

A leader leads from the front, and the manager must also possess exceptional qualities and work ethic that his team members can learn from.

7. **Change Management**

In any company or organization, change is a given. The manager has to be the agent of change in such cases. It is his roles and responsibilities to ensure the process of change is smooth and uneventful for the company.

8. **Choosing correct Information Technology**

This is a problem that all managers of today's era are facing. There are so many choices available in the market for various IT processes.

It is a challenge to use the best and most suitable technology for your organization. So this entails choosing the correct software, communication system, network system etc.

Tasks of top level management:

The main tasks of top level management are as follows:

(a) Determine objectives for the organisation: Objectives may relate to profit, business growth, survival, prestige, competitive pricing, marketing method, widening the area of sales, relations with workers, customers, public etc.

(b) Frame the policy: To frame the policy and chalk out the plans to carry out the objectives and policies. Policies may relate to different aspects of the organisation. For example, production policy deals with the quality, product variety, scheduling of production to meet the market demand etc.

1) Market policy: this policy deals with such matters as advertising and sales promotion techniques, pricing product, channel of distribution, commission, discount, placements, training, remuneration promotion, appraisal of performance etc. of the personnel.

2) Financial policy: This relates to the procurement of funds, source of finance, management of earning, etc.

(c) Organisational Frame Work: Top management determines the organisational structure for the purpose of executing the plans that have been laid down. Execution of plans is necessary to carry out the objectives and policies.

(d) Assemble the Resources: For the purpose of executing the plans, the resources of men, machines, materials and money have to be assembled. This again is the task of top management.

(e) Control the operations through organisation: Controls the top management regarding operations through budgets, cost and statistics quality control and accounting devices.

Types of objectives and their overall Hierarchy

1. Primary Objectives:

These are the objectives for which a company has been started. Every business aims to earn more and more profits out of its working. Primary objectives are related to the company and not to individuals. Earning of profits out of providing goods and services to the customers is the primary objective of a company. The goods and services are provided as per the requirements of customers. Earning profits through customer satisfaction helps in earning goodwill and regular clientele. The production of goods and services as per determined targets will be achieved through individual goals of employees in the organization.

2. Secondary Objectives:

These objectives help in achieving primary objectives. The targets are identified and efforts are made to increase efficiency and economy in the performance of work. The goals dealing with analysis, advice and interpretation provide support to goals directed by primary objectives. Secondary objectives, like primary objectives, are impersonal in nature. The primary goal of earning profits through providing goods and services will be achieved if there is a plan to add new products in the market at regular intervals. The goal of adding new products will be a secondary goal which will help in achieving the primary objective.

3. Individual Objectives:

These are the goals which individual members in an organization try to achieve on daily, weekly, monthly or yearly basis. These objectives are achievable as subordinate to primary and secondary goals. Most of the individual objects are economic, psychological or non-financial rewards which an individual tries to achieve by using resources of time, skill and effort. An individual tries to satisfy his needs and desires by working in an organization. In order to motivate individuals for raising their performance, organizations offer varied incentives.

4. Social Objectives:

These are the goals of an organization towards society. These include the obligations required by the community, government agencies etc. These also include goals intended to further social, physical and cultural improvement of the society. Social obligations of business has become essential these days. Business has to produce goods and services by taking into consideration health requirements of people. There are expectations that business should also spent a part of its profits for the welfare of community.

Hierarchy of Objectives:

Objectives form a hierarchy ranging from the broad aim to specific individual objectives. At the top of it the main goals of the organization are set. The organization has to see its responsibilities towards society and then towards herself. The organization is required to contribute to the welfare of society by providing good quality products at reasonable cost. The main purpose of the business is to provide a specific level of services or a proper type of goods. The overall objectives of the organization are specified at the top level management.

The objectives of the key areas are also determined at the higher level management. The next in hierarchy comes the objectives of divisions and departments and units and these are decided at middle level management comprising Vice-president or functional managers. The objectives of individuals are decided at the bottom of the hierarchy. The junior level management sets performance standards of individuals.

The hierarchy of objectives is shown in the diagram:

Top Down and Bottom up Approach:

There is some controversy whether the objectives should be fixed at top down or bottom up. In the top down approach upper level managers set objectives for the subordinates while in the bottom up approach subordinates initiate the setting of objectives of their positions and present them to their superiors. The proponents of the top down approach are of the view that overall objectives of the organization should be set at Chief Executive Officer level of top level of management. It will provide a proper synchronization of objectives of different areas and individuals.

On the other hand the supporters of bottom up approach argue that top management needs to have information from lower levels in the form of objectives. Since subordinates fix their own goals they will be motivated and committed to their performance. It may not be advisable to rely entirely on one approach. Both the approaches should be used wisely for better results. In a practical situation such decisions are linked to factors such as the size of the organization, the organization culture, leadership style of the executive and the urgency of the plan.

Setting of objectives, Key areas involved

8 key areas in which managers should set management system objectives are:

1. **Innovation:**

Innovation is the hallmark of progress and prosperity though associated with high degree of risk and uncertainty. There is a great need for new and innovative products and services. Even if it is a risk in being the first with something new, it has potentials of high rewards.

2. **Management Development:**

The survival of any organisation depends on this. Smaller firms are especially vulnerable, since the management expertise often rests with one or a few talented managers. So the organisations, whether large or small, must set objectives relating to the quality of management performance and to ensuring the development of managers at all levels.

Management development is one of the strategic issues for corporate governance and development particularly when Strategic Business Units (SBUs) are formed for various strategic decisions and actions.

3. **Worker Performance and Attitudes:**

In every organisation, most of the routine tasks are performed by the operative-level employees. The operations of many large and small firms are disrupted by strikes. The managers of smaller non-union firms become alarmed when their workers talk of organising or joining a union.

The firms seeking search for effectiveness should set objectives on workers' performance and attitudes having due regard to such factors as output per man-day, product specification and quality, and level of employee morale.

4. **Public and Social Responsibility:**

'The profit ethic—the idea that business is to maximise profit— once served the purpose. Today this ethic cannot be used since there are goals other than profit'. An organisation must operate at maximum economic efficiency to get rid of the evil connotations attached to the word 'profit'. According to Chads F. Phillips, 'business should seek society's good in ways that are also good for business'.

In this respect, Peter Drucker himself said 'Neither results nor resources exist inside the business. Both exist outside. The business enterprise should be so managed so as to make the public good become the private good of the enterprise.' Thus, big firms should set this criteria as one of their objectives.

5. **Market Standing:**

A business must set objectives concerning what share of the market it will try to capture.

The best market share requires careful analysis of:

(i) Customers and products or services,

(ii) Market segments (what groups of customers are buying the product or services), and

(iii) Distribution channels (the methods adopted for getting the product to the customers).

The product-market matrix of Ansoff is most relevant and therefore, should be pursued.

6. **Productivity:**

Productivity or efficiency is the ratio of an organisation's inputs to outputs. It is concerned with the determination and balancing of inputs of material, labour, equipment, finance and managerial skills to produce the firm's outputs.

For example: when a firm cuts its employees turnover rate, the costs of hiring and training new employees drops—this results in increased productivity; or when material specifications are changed in association with an improved equipment, the overall productivity may increase.

Thus, the productivity objectives can be set in several areas, including work methods, machinery synchronising and increased worker efficiency.

7. **Physical and Financial Resources:**

This is concerned with the generation and utilisation of financial resources coupled with the organisation of physical resources like men, materials and machinery. So, the objectives should be established regarding plant and equipment and human resources and supply of raw materials.

8. **Profitability:**

Profit objectives are important to accomplish other objectives including:

(i) The research and development needed for innovation of products and processes,

(ii) The financial strength to update the plant and equipment, and

(iii) The salaries needed to attract outstanding personnel.

UNIT- IV

Decision Making and Problem Solving

Strategic Decision Making

Strategic decision-making is the process of charting a course based on long-term goals and a longer term vision. By clarifying your company's big picture aims, you'll have the opportunity to align your shorter term plans with this deeper, broader mission — giving your operations clarity and consistency.

Strategic decision making involves the following 3 things:

1. The long term way forward for the company
2. Selection of proper markets for the company
3. The products and tactics needed to succeed in the targeted market.

These are important features of Strategic Decision Making

(1) Strategy is at many times at tangent with Marketing Decisions

Where marketing decisions are short term, strategic decision making might consider a long term initiative, such as launching a very new and innovative product, or changing the existing product lines radically. Technology or innovation is at the crux of strategic decision making.

The reason that marketing decisions and strategy decisions are difference is because marketing is focused on retaining the existing customer base with the existing technologies. But the customer base is sure to get tired soon of the existing products and the innovators and adopters will keep searching for new products in the market. And hence, through strategic decisions, the firm has to stay in a place of continuous development.

(2) There is immense risk involved while taking strategic decisions

Naturally, when you are implementing plans which will show positive or negative results only after 4-5 years, the risk in strategic decision making is huge. Think about the time and energy, not to say natural resources wasted to implement a plan which failed after 4-5 years.

Yet, even after the risk involved, companies have to implement risky strategic decisions from time to time just because the directors thought a unique product had demand in the market, or that another product is required in the market. Strategic decisions involve necessary risk and success is not guaranteed.

(3) Strategic decisions involve a lot of Ifs and Buts

Think of a mind map and the number of branches and nodes that can form the complete mind map. When a brain starts thinking, the central thought might have further branches, and these branches will have even more nodes (or sub branches if you want to call them)

Similar to the mind map, a business can face many problems in the course of its run. A competitor can crop up, the market can become penetrative, the external environment can change, and many other unforeseen situations can happen. The strategic decision making has to consider all these alternatives, whether positive or negative. And the plan has to also include the action that the firm will take, if any of the above business problems or factors come into play.

(4) Strategy implementation timelines

Whenever we make a schedule in our personal lives, we always start things when we have enough time in our hand. For example – you will plan a holiday, when office work is not hectic. You will not plan it when there is a product launch nearby. Similarly, when in business, timelines are very important.

If a product is to be launched, the launch date is decided at least a year back, the sales phase has to be implemented at least 2 months before the actual launch so that you have sellers in place when the product is launch. Moreover, the service network is also to be planned before the launch, so that service issues are sorted out when there are problems after the product launch. If these concepts are not implemented, the marketing strategy and hence the product can fail miserably.

(5) Preparing for the competition's response

Whenever you change the market equilibrium, the competitors, whose businesses you have directly challenged, are sure to respond. When they respond, the market changes and you have to change your strategy accordingly.

In general, there are 2 ways that a company directly affects the competition and the market.

a) The company creates a completely new operating norm in the market itself.

b) It raises customer expectations and thereby changes the market equilibrium.

Most strategic decisions will call for radical changes in the way the company operates in the existing market. Accordingly, the perception of competitors and customers will change for the company. The company has to in turn be prepared for the response of competitors in such a case.

Implementation of strategic decisions – While implementing strategic decisions, you need to have eyes at the front as well as the back of your head. You need to look at what was decided at the start, as due to short term pressure, it is very much possible to deviate from the path which was already set.

Process of Strategic Management and Levels at which Strategy Operates

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance.

Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises it's competitors; and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

Strategic management process has following four steps:

1. **Environmental Scanning–** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
2. **Strategy Formulation–** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
3. **Strategy Implementation-** Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.
4. **Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as it's implementation meets the organizational objectives.

Components of Strategic Management Process

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes.

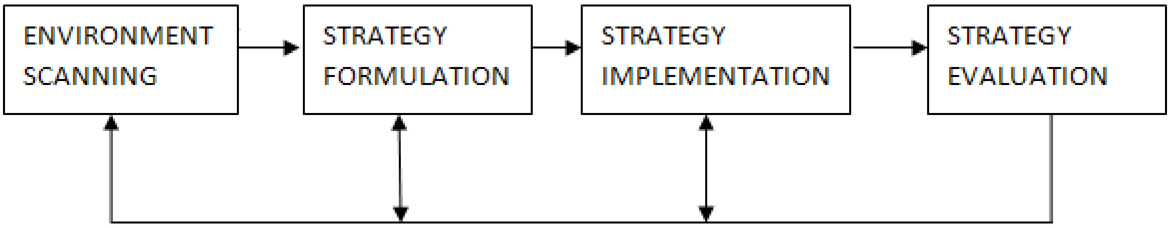


Figure – Components of Strategic Management Process

Strategic management is an ongoing process. Therefore, it must be realized that each component interacts with the other components and that this interaction often happens in chorus.

The Three Levels of Strategy

Strategy is at the heart of business. All businesses have competition, and it is strategy that allows one business to rise above the others to become successful. Even if you have a great idea for a business, and you have a great product, you are unlikely to go anywhere without strategy.

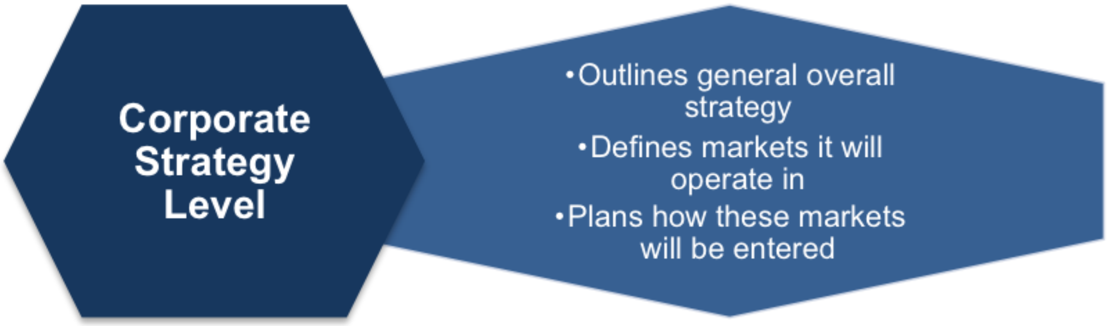
Many of the most successful business men and women throughout history have been great strategic thinkers, and that is no accident. If you wish to take your business to the top of the market as quickly as possible, it is going to be strategy that leads the way.

Of course, before you can get into the process of determining your own business strategies, you need to understand what the word 'strategy' really means in a business context. Does it involve long-term planning as to the general course of the business? Or is it related to the day-to-day operations and how they are designed in order to achieve success? Well, in practical application, strategy can refer to both of those things and more.

To help you understand strategy in business, this article is going to look at the three levels of strategy that are typically used by organizations. Only when all three of these levels are carefully considered will your business be able to get on the right path toward a prosperous future.

1. **Corporate Strategy**

The first level of strategy in the business world is corporate strategy, which sits at the 'top of the heap'. Before you dive into deeper, more specific strategy, you need to outline a general strategy that is going to oversee everything else that you do. At a most basic level, corporate strategy will outline exactly what businesses you are going to engage in, and how you plan to enter and win in those markets.



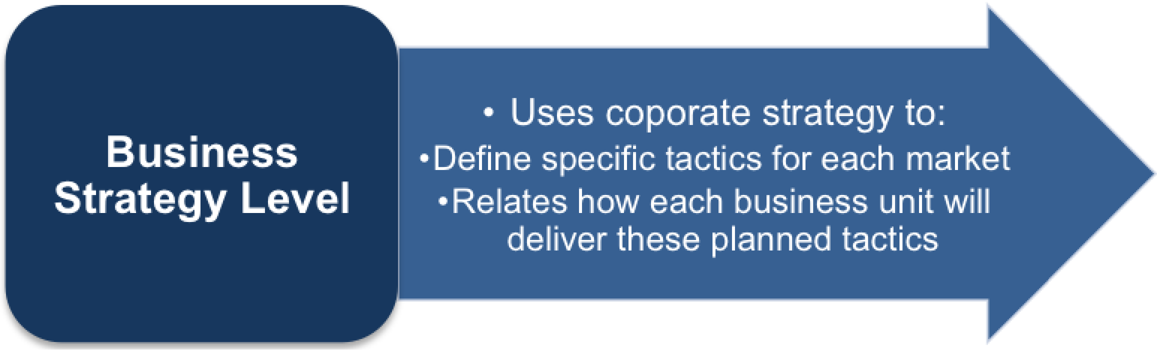
It is easy to overlook this planning stage when getting started with a new business, but you will pay the price in the long run for skipping this step. It is crucially important that you have an overall corporate strategy in place, as that strategy is going to direct all of the smaller decisions that you make.

For some companies, outlining a corporate strategy will be a quick and easy process. For example, smaller businesses who are only going to enter one or two specific markets with their products or services are going to have an easy time identifying what it is that makes up the overall corporate strategy. If you are running an organization that bakes and sells cookies, for instance, you already know exactly what the corporate strategy is going to look like – you are going to sell as many cookies as possible.

However, for a larger business, things quickly become more complicated. Carrying that example forward to a larger company, imagine you run an organization that is going to sell cookies but is also going to sell equipment that is used while making cookies. Entering into the kitchen equipment market is a completely different challenge from selling the cookies themselves, so the complexity of your corporate strategy will need to rapidly increase. Before you get any farther into the strategic planning of your business, be sure you have your corporate strategy clearly defined.

2. **Business Strategy**

It is best to think of this level of strategy as a 'step down' from the corporate strategy level. In other words, the strategies that you outline at this level are slightly more specific and they usually relate to the smaller businesses within the larger organization.



Carrying over our previous example, you would be outlining separate strategies for selling cookies and selling cookie-making equipment at this level. You may be going after convenience stores and grocery stores to sell your cookies, while you may be looking at department stores and the internet to sell your equipment. Those are dramatically different strategies, so they will be broken out at this level.

Even in smaller businesses, it is a good idea to pay attention to the business strategy level so you can decide on how you are going to handle each various part of your operation. The strategy that you highlighted at the corporate level should be broad in scope, so now is the time to boil it down into smaller parts which will enable you to take action.

3. **Functional Strategy**

This is the day-to-day strategy that is going to keep your organization moving in the right direction. Just as some businesses fail to plan from a top-level perspective, other businesses fail to plan at this bottom-level. This level of strategy is perhaps the most important of all, as without a daily plan you are going to be stuck in neutral while your competition continues to drive forward. As you work on putting together your functional strategies, remember to keep in mind your higher level goals so that everything is coordinated and working toward the same end.

It is at this bottom-level of strategy where you should start to think about the various departments within your business and how they will work together to reach goals. Your marketing, finance, operations, IT and other departments will all have responsibilities to handle, and it is your job as an owner or manager to oversee them all to ensure satisfactory results in the end. Again, the success or failure of the entire organization will likely rest on the ability of your business to hit on its functional strategy goals regularly. As the saying goes, a journey of a million miles starts with a single step – take small steps in strategy on a daily basis and your overall corporate strategy will quickly become successful.

UNIT- V

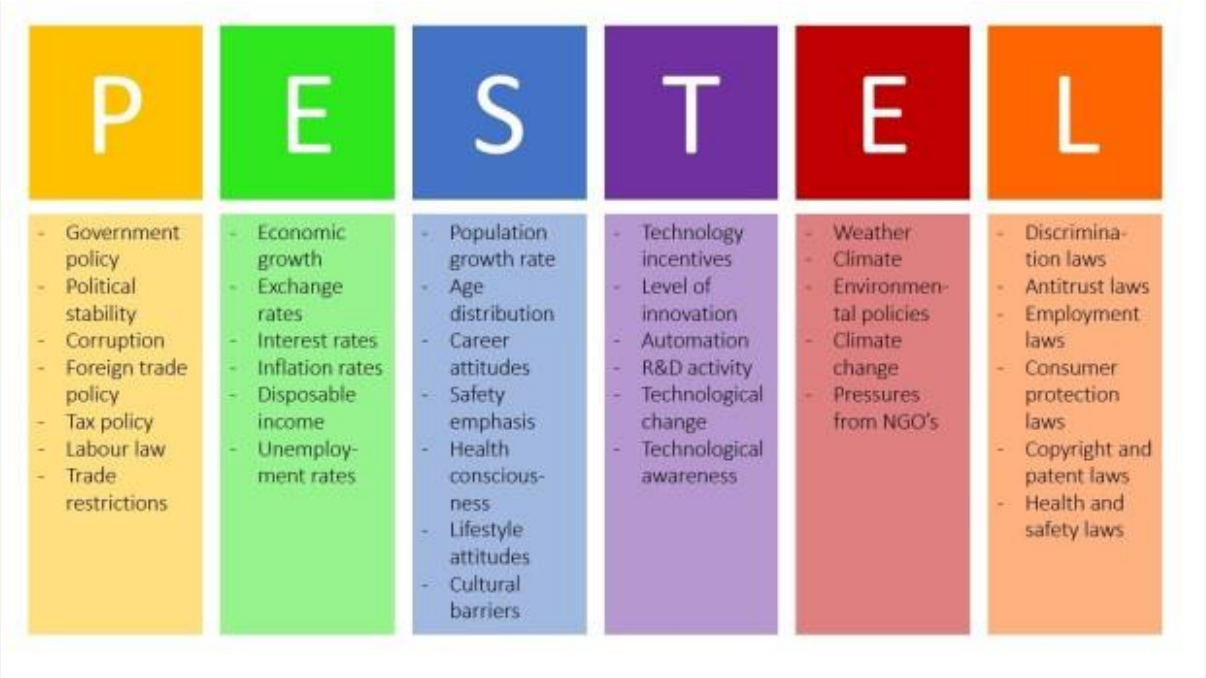
External Environment

External Environment Analysis: PESTEL

External environment analysis is an important part of strategic management.

PESTEL Analysis

PESTEL analysis includes Political, Economic, Social, Technological, Environmental and Legal analysis. It is an external environment analysis for conducting a strategic analysis or carrying out market research. It offers a certain overview of the varied macro-environmental factors that the company has to consider.



PESTEL

- **Political factors** analysis is related with how and to what extent a government interferes in the economy. Specifically, political factors include tax policy, labor law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also be related with goods and services which the government allows (merit goods) and those that the government does not want to allow (demerit goods). The government can have a great influence on the overall health, education, and infrastructure of a country.
- **Economic factors** contain factors such as economic growth, interest rates, exchange rates and the inflation rate. These factors may have an influential effect on how the businesses operate and make decisions. For example, interest rates can affect the firm's cost of capital and thereby influence business growth and expansion. Exchange rates can affect the costs of export and the supply and price of imports.

- **Social factors** contain issues such as health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in the social factors may affect the demand for a company's goods and how the company operates. For example, ageing population leads to smaller and less-willing workforce (and increases the cost of labor). Moreover, companies may change various management strategies in sync with the social trends (such as recruiting more females).
- **Technological factors** include ecological and environmental aspects, such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.
- **Environmental factors** are the conditions such as weather, climate, and climate change, which may especially influence tourism, farming, and insurance sectors. Growing awareness to climate change are increasing the interest in how companies operate and what products they offer; it is both creating new markets and damaging the existing ones.
- **Legal factors** include laws pertaining to discrimination, consumer affairs, antitrust, employment, and health and safety. These factors can affect the operations, costs, and the demand for the products. Legal factors can also influence the brand value and reputation of a company. They are increasingly paid more attention to in the current decade.

While in **external analysis**, three correlated environments should be studied and analysed:

- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment

Examining the **industry environment** needs an appraisal of the competitive structure of the organization's industry, including the competitive position of a particular organization and it's main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition within the industry. Analyzing the **national environment** needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment. Analysis of **macro-environment** includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization's external environment reveals opportunities and threats for an organization.

Strategic managers must not only recognize the present state of the environment and their industry but also be able to predict its future positions.

EFE Matrix

The EFE matrix is the strategic tool used to evaluate firm existing strategies, EFE matrix can be defined as the strategic tool to evaluate external environment or macro environment of the firm include economic, social, technological, government, political, legal and competitive information.

The EFE matrix is similar to IFE matrix the only difference is that IFE matrix evaluate the internal factors of the company and EFE matrix evaluate the external factors.

The EFE matrix consists of following attributes mentioned below.

EXTERNAL FACTORS

External factors are extracted after deep analysis of external environment. Obviously there are some good and some bad for the company in the external environment. That's the reason external factors are divided into two categories opportunities and threats.

Opportunities

Opportunities are the chances exist in the external environment, it depends firm whether the firm is willing to exploit the opportunities or maybe they ignore the opportunities due to lack of resources.

Threats

Threats are always evil for the firm, minimum no of threats in the external environment open many doors for the firm. Maximum number of threats for the firm reduce their power in the industry.

RATING

Rating in EFE matrix represent the response of firm toward the opportunities and threats. Highest the rating better the response of the firm to exploit opportunities and defend the threats. Rating range from 1.0 to 4.0 and can be applied to any factor whether it comes under opportunities or threats.

There are some important point related to rating in EFE matrix.

- Rating is applied to each factor.
- The response is poor represented by 1.0
- The response is average is represented by 2.0
- The response is above average represented by 3.0
- The response is superior represented by 4.0

WEIGHT

Weight attribute in EFE matrix indicates the relative importance of factor to being successful in the firm's industry. The weight range from 0.0 means not important and 1.0 means important, sum of all assigned weight to factors must be equal to 1.0 otherwise the calculation would not be consider correct.

WEIGHTED SCORE

Weighted score value is the result achieved after multiplying each factor rating with the weight.

TOTAL WEIGHTED SCORE

The sum of all weighted score is equal to the total weighted score, final value of total weighted score should be between range 1.0 (low) to 4.0(high). The average weighted score for EFE matrix is 2.5 any company total weighted score fall below 2.5 consider as weak. The company total weighted score higher then 2.5 is consider as strong in position.

STEPS IN DEVELOPING THE EFE MATRIX:

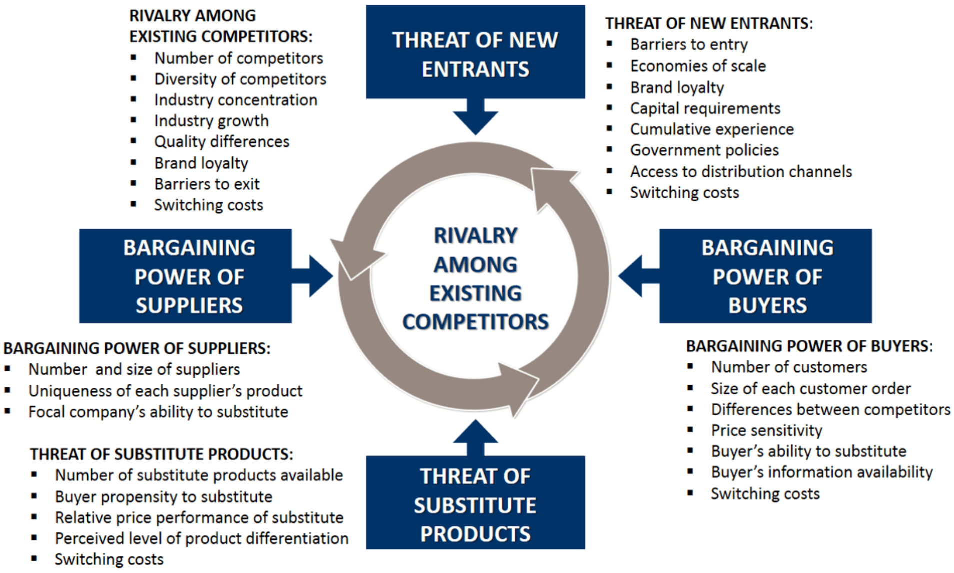
1. Identify a list of KEY external factors (critical success factors).
2. Assign a weight to each factor, ranging from 0 (not important) to 1.0 (very important).
3. Assign a 1-4 rating to each critical success factor to indicate how effectively the firm’s current strategies respond to the factor. (1 = response is poor, 4 = response is extremely good)
4. Multiply each factor’s weight by its rating to determine a weighted score.
5. Sum the weighted scores.

Porter’s Five Forces Model

Porter’s Five Forces is a business analysis model that helps to explain why different industries are able to sustain different levels of profitability. The model was originally published in Michael Porter’s book, “Competitive Strategy: Techniques for Analyzing Industries and Competitors” in 1980.

The model is widely used to analyze the industry structure of a company as well as its corporate strategy. Porter identified five undeniable forces that play a part in shaping every market and industry in the world. The forces are frequently used to measure competition intensity, attractiveness and profitability of an industry or market.

These forces are:



1. Competition in the industry;
2. Potential of new entrants into the industry;
3. Power of suppliers;
4. Power of customers;
5. Threat of substitute products.

Threat of new entrants. This force determines how easy (or not) it is to enter a particular industry. If an industry is profitable and there are few barriers to enter, rivalry soon intensifies. When more organizations compete for the same market share, profits start to fall. It is essential for existing organizations to create high barriers to enter to deter new entrants. Threat of new entrants is high when:

- Low amount of capital is required to enter a market;
- Existing companies can do little to retaliate;
- Existing firms do not possess patents, trademarks or do not have established brand reputation;
- There is no government regulation;
- Customer switching costs are low (it doesn't cost a lot of money for a firm to switch to other industries);
- There is low customer loyalty;
- Products are nearly identical;
- Economies of scale can be easily achieved.

Bargaining power of suppliers. Strong bargaining power allows suppliers to sell higher priced or low quality raw materials to their buyers. This directly affects the buying firms' profits because it has to pay more for materials. Suppliers have strong bargaining power when:

- There are few suppliers but many buyers;
- Suppliers are large and threaten to forward integrate;
- Few substitute raw materials exist;
- Suppliers hold scarce resources;
- Cost of switching raw materials is especially high.

Bargaining power of buyers. Buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs. Both scenarios result in lower profits for producers. Buyers exert strong bargaining power when:

- Buying in large quantities or control many access points to the final customer;
- Only few buyers exist;
- Switching costs to other supplier are low;
- They threaten to backward integrate;
- There are many substitutes;
- Buyers are price sensitive.

Threat of substitutes. This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost. For example, to switch from coffee to tea doesn't cost anything, unlike switching from car to bicycle.

Rivalry among existing competitors. This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when:

- There are many competitors;

- Exit barriers are high;
- Industry of growth is slow or negative;
- Products are not differentiated and can be easily substituted;
- Competitors are of equal size;
- Low customer loyalty.

Although, Porter originally introduced five forces affecting an industry, scholars have suggested including the sixth force: complements. Complements increase the demand of the primary product with which they are used, thus, increasing firm’s and industry’s profit potential. For example, iTunes was created to complement iPod and added value for both products. As a result, both iTunes and iPod sales increased, increasing Apple’s profits.